

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CHARTER TOWNSHIP OF OSCODA	County IOSCO
Audit Date 12/31/2004	Opinion Date 02/21/2005	Date Accountant Report Submitted to State: 06/28/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CHARTER TOWNSHIP OF OSCODA
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2004

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 10

BASIC FINANCIAL STATEMENTS**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

EXHIBIT A	STATEMENT OF NET ASSETS	11
EXHIBIT B	STATEMENT OF ACTIVITIES	12

FUND FINANCIAL STATEMENTS

EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUNDS	13
EXHIBIT D	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	14
EXHIBIT E	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	15
EXHIBIT F	RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	16
EXHIBIT G	STATEMENT OF NET ASSETS - PROPRIETARY FUNDS	17
EXHIBIT H	STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS	18
EXHIBIT I	STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	19
EXHIBIT J	STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS	20
EXHIBIT K	NOTES TO FINANCIAL STATEMENTS	21 - 48

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT L	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	49 - 52
EXHIBIT M	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - POLICE FUND - SPECIAL REVENUE FUND	53
EXHIBIT N	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - PROPERTY OPERATION AND MAINTENANCE FUND - SPECIAL REVENUE FUND	54

OTHER INFORMATION**COMBINING STATEMENTS - NONMAJOR FUNDS**

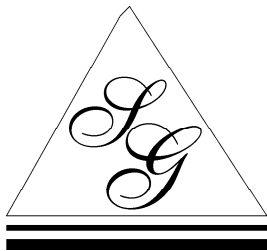
EXHIBIT O	COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	55
EXHIBIT P	COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	56
EXHIBIT Q	COMBINING STATEMENT OF NET ASSETS - OTHER PROPRIETARY FUNDS	57

I_N_D_E_X

AUDITORS' REPORT

PAGE

EXHIBIT R	COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - OTHER PROPRIETARY FUNDS	58
EXHIBIT S	COMBINING STATEMENT OF CASH FLOWS - OTHER PROPRIETARY FUNDS	59
EXHIBIT T	SEWAGE DISPOSAL SYSTEM FUND - STATEMENT OF NET ASSETS	60
EXHIBIT U	SEWAGE DISPOSAL SYSTEM FUND - STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS	61
EXHIBIT V	SEWAGE DISPOSAL SYSTEM FUND - STATEMENT OF CASH FLOWS	62
EXHIBIT W	SEWAGE DISPOSAL SYSTEM FUND - SUPPLEMENTAL INFORMATION FOR GMAC COMMERCIAL MORTGAGE	63
	REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	64 - 65



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 21, 2005

Independent Auditors' Report

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Charter Township of Oscoda's basic financial statements, as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2005, on our consideration of the Charter Township of Oscoda's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Charter Township of Oscoda has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Members of the Township Board
Charter Township of Oscoda
February 21, 2005
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Oscoda's basic financial statements. The combining and individual nonmajor fund financial statements and supplemental information for GMAC Commercial Mortgage are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Grubb & Co., P.C.



Charter Township of Oscoda
110 S. State Street
Oscoda, Michigan 48750

Office of the Supervisor: (989) 739-3211

Office of the Clerk: (989) 739-4971

Office of the Treasurer: (989) 739-7471

Office of the Superintendent: (989) 739-8299

Fax: (989) 739-3344

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Charter Township of Oscoda's (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government and, unless otherwise noted, component units reported separately from the primary government are not included. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The Township's assets exceeded its liabilities by \$24,083,466.
- The Township's total net assets increased by \$1,086,084.
- The Township's governmental funds reported a combined ending fund balance of \$4,454,096 this year, a decrease of \$232,520. Of this amount, \$3,451,313 is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township General Fund 2004 year end *fund balance* is \$1,330,925.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets and infrastructure are listed for the first time under GASB 34 for the Charter Township of Oscoda. These assets are comprised of buildings, furniture and fixtures, radios/electronic equipment, computer systems, vehicles, land, and infrastructure (water and sewer lines) owned by the Township. These assets total over \$15 million. Township management and staff performed a department-by-department inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

In addition, with this report, 2004 property taxes that will be received in the future are listed as *taxes receivable* and as *deferred revenue*.

The Township's component unit is the Charter Township of Oscoda Downtown Development Authority. This component unit is described in the *Notes to the Financial Statements* (page 21). The component unit is separate and may buy, sell, lease, and mortgage property in their own name, and can sue or be sued in their own name.

The Charter Township of Oscoda Downtown Development Authority displays assets totaling \$267,443 comprised of cash and cash equivalents.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed.

Governmental fund reporting focuses on the sources, uses and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Police Fund – This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund in the case of Oscoda Township and monthly payments from AuSable Township.
- Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income including grants as they might become available.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Township's major enterprise funds:

- Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the new lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees.
- Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.
- Housing Fund - This fund accounts for revenues and expenses associated with the sale and redevelopment of the former Wurtsmith Air Force Base family housing area. Any activity relating to demolition of housing is also budgeted in this fund.
- Old Orchard Park Fund - This fund was created when the Township acquired leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through inter budgetary transfers.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. Exhibit K notes 1 – 18 provide an expansive and thorough view of various aspects of the audited financial statements.

Charter Township of Oscoda Downtown Development Authority related financial data is included throughout the notes to financial statements .

Other Information :

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government -Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

Summary of Net Assets:

The following summarizes the net assets of the Charter Township of Oscoda at December 31, 2004:

Net Assets Summary

	Governmental Activities	Business-Type Activities	Total
Current Assets	\$ 4,346,450	\$ 4,931,866	\$ 9,278,316
Restricted Assets	991,266	1,567,215	2,558,481
Capital Assets – net	7,719,429	7,752,016	15,471,445
Other Noncurrent Assets	<u>491,861</u>	<u>4,176,630</u>	<u>4,668,491</u>
Total Assets	<u>13,549,006</u>	<u>18,427,727</u>	<u>31,976,733</u>
Current Liabilities	1,379,131	206,407	1,585,538
Long-Term Liabilities	<u>348,936</u>	<u>5,958,793</u>	<u>6,307,729</u>
Total Liabilities	<u>1,728,067</u>	<u>6,165,200</u>	<u>7,893,267</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,459,350	3,847,016	11,306,366
Restricted	1,002,783	1,567,215	2,569,998
Unrestricted	<u>3,358,806</u>	<u>6,848,296</u>	<u>10,207,102</u>
Total Net Assets	<u>\$ 11,820,939</u>	<u>\$ 12,262,527</u>	<u>\$ 24,083,466</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for 2004. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Charter Township of Oscoda, through its governing body, i.e., Township Board of Trustees, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board of Trustees has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's practice, in general, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for Services	\$ 605,833	\$ 2,739,491	\$ 3,345,324
Operating Grants and Contributions	20,436	0	20,436
Capital Grants and Contributions	<u>0</u>	<u>594,861</u>	<u>594,861</u>
Total Program Revenues	<u>626,269</u>	<u>3,334,352</u>	<u>3,960,621</u>
General Revenues:			
Property Taxes	1,180,260	0	1,180,260
State Revenue Sharing	594,723	0	594,723
Rent Income	288,894	50,315	339,209
Investment Earnings and Miscellaneous	<u>349,317</u>	<u>78,459</u>	<u>427,776</u>
Total General Revenues	<u>2,413,194</u>	<u>128,774</u>	<u>2,541,968</u>
Total Revenues	<u>3,039,463</u>	<u>3,463,126</u>	<u>6,502,589</u>
Program Expenses:			
General Government	900,484	0	900,484
Public Safety	1,128,829	0	1,128,829
Public Works	154,444	0	154,444
Community and Economic Development	585,350	0	585,350
Recreation and Cultural	264,749	0	264,749
Other	17	0	17
Interest on Long-Term Debt	16,507	0	16,507
Sewage Disposal System	0	711,761	711,761
Water Services	0	926,402	926,402
Housing	0	19,991	19,991
Old Orchard Park	0	567,215	567,215
Community Center	0	134,275	134,275
Exposition Center	<u>0</u>	<u>6,481</u>	<u>6,481</u>
Total Program Expenses	<u>3,050,380</u>	<u>2,366,125</u>	<u>5,416,505</u>
Increase (decrease) in Net Assets Before Transfers	(10,917)	1,097,001	1,086,084
Transfers	<u>91,962</u>	<u>(91,962)</u>	<u>0</u>
Change in Net Assets	81,045	1,005,039	1,086,084
Beginning Net Assets	<u>11,739,894</u>	<u>11,247,488</u>	<u>22,997,382</u>
Ending Net Assets	<u>\$ 11,820,939</u>	<u>\$ 12,262,527</u>	<u>\$ 24,083,466</u>

Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$626,269 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fine and forfeitures, and licenses & permits. While revenue collected is substantial, operating expenses totaled \$3,050,380 for these same activities. The largest expenses were incurred by General Government offices (\$900,484) and Public Safety (\$1,128,829).

Business-Type Activities

The Township's main *Business-Type activities* are the Sewage Disposal System, Water Services, Housing and Old Orchard Park. The Township Park has long proven itself to be a *net* revenue generator and for 2004 it netted \$184,574. Housing revenues diminished significantly from over \$356,000 in 2003 to \$115,768 in 2004, based upon a declining number of properties available for resale. Expenditures were less than \$20,000 and involved engineering fees as required to bid out demolition of the 8,000 area. Activities in the Sewer Fund increased due to implementation of the Wurtsmith Sewer Lagoon Reactivation Project. However, a significant amount of this activity, be it receipt and expenditure of bond and grant proceeds or payments to contractors, is not reflected in the operating budget due to bills being paid through the Iosco County Board of Public Works. However, the resulting assets and liabilities are reflected in appropriate Sewer Fund accounts. For the most part, Water Fund revenues and expenditures reflected a maintenance of the status quo as compared to past years. Exceptions to this observation were a reduction in the readiness to serve charge from \$10.92 to \$9.00 per month which impacted revenues and initiation of a water main replacement program in the downtown area beginning with Dwight Street.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue; 2) Police Fund – This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund in the case of Oscoda Township and monthly payments from AuSable Township; and 3) Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or lease facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income, including grants as they might become available.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

This year's Township audit, following GASB 34 format, shows 22 funds. These funds are maintained by the Township Treasurer as separate units in the General Ledger.

Significant Fund Activity

General Fund activity of significance in 2004 included creating or improving hard surfaces -- namely roads and parking lots. Specifically, Lake to Lake Road and parking lots in downtown Oscoda and at Van Etnan Beach were paved. In addition, a concrete slab was constructed at the Oscoda Beach Park upon which the Skatepark facility is located. The Township also acquired the State Street Square building to accommodate relocation of the Board meeting room which will create space for the Fire Department in the Township Hall. The Fire Department was

able to successfully acquire State and Federal grant funding to purchase equipment which helped to offset a continuing decline in State Shared Revenues of major magnitude as compared to only a few years ago.

The Property Operation and Maintenance Fund continued to derive revenues from the sale of capital assets and leasing of facilities on the former Wurtsmith Air Force Base. The end of 2004 saw the caretaker operation, which utilized Federal funds to maintain Wurtsmith properties, come to a closure in December.

Enterprise Funds

The Township's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Old Orchard Park, Housing, and Water and Sewer services comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

Significant Fund Activity

Enterprise Fund operations were impacted significantly by Capital Improvements in Fiscal Year 2004. A substantial playground structure and a portion of a fishing pier that will be completed in 2005 were constructed at Old Orchard Park. Although tapering off, sales of Wurtsmith housing units continue generating revenues for the Housing Fund. The passage of Federal legislation authorizing the Air Force to fund demolition on the former Wurtsmith Air Force Base is likely to influence the fund's operations in Fiscal Year 2005 when such funds become available. Public utility projects included the replacement of an aging water main on Dwight Street and completion of the Wurtsmith Sanitary Sewer Lagoon Reactivation effort. The water line replacement represents the first step in a long term plan to replace older water mains in the downtown area in the community.

Budgetary Highlights

Fiscal Year 2004 saw the Township General Fund balance diminish from \$1,431,809 to \$1,330,925. This was caused in large part by the expenditure of \$240,000 to purchase the State Street Square building. Similarly, the Police Fund fund balance was reduced from \$318,933 to \$271,939. This reduction is less than the budgeted shortfall, and was mitigated in part by receipt of caretaker reimbursement payments which will not be available in the future. The Property Operation and Maintenance Fund saw a significant increase in its fund balance (from \$841,802 to \$1,061,122) based in large part on the sale of capital assets. On the opposite end of the spectrum, the Base Closure Fund saw its fund balance decrease by almost \$250,000 from \$1,116,318 to \$888,815 due to transfer of monies to other funds for operational purposes. The Housing Fund through sale of housing units gained over \$100,000 in net assets ending the year at \$1,757,139. Sewer Fund Net Assets increased substantially to \$2,691,989 as compared to 2003 because of the impact the sewer lagoon reactivation project had on the balance sheet which is demonstrated in net assets. Water Fund Net Assets increased modestly to exceed \$6,000,000 which includes the capital asset value of the water system as opposed to only cash on hand.

Capital Asset and Debt Administration

Capital Assets

Of primary interest with this year's Township financial statement is the inclusion of "capital assets." Capital assets are defined by the Township as assets with an initial individual cost of more than \$7,500 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$9,635,348 with an ending balance of \$10,073,492. Governmental Activities Total Capital Assets – Net of Depreciation was \$7,719,429.

Capital Assets - Business Type Activities beginning balance was \$12,374,230 with an ending balance of \$14,292,507. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,752,016. An expanded and detailed presentation may be seen in Note 6 of the notes to financial statements.

Long-Term Debt

The Long-Term debt of the Charter Township of Oscoda, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Township Board of Trustees.

The most significant debt issues impacting the Township recently include the issuance of bonds to finance the sewer lagoon reactivation project and prepayment of water system bonds that facilitated, in part, the ability to reduce the readiness to serve charge for water customers. The Township is also evaluating the feasibility of prepaying a portion of the 1973 bonds utilized to finance construction of the sanitary sewer system.

At year's end, long-term debt (due in more than one year) amounted to \$5,808,582. Such debt includes *Land Contract Payable*, *Contracts Payable*, *Bonds Payable*, *Capital Lease Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors

In recent years the Township has seen State Shared Revenues diminish from approximately \$1,160,000 in Fiscal Year 2000 to less than half that amount in the most recent years. This, coupled with a struggling State wide economy, has created a challenging environment for the governmental funds. Despite this, established services have been maintained with investments in the communities' future continuing to be made. In recent years Township taxpayers have seen a sewer millage eliminated while utility customers benefit from decreased readiness to serve charges and significantly increased capacity and growth potential at the sanitary sewer treatment lagoons.

Component Units

Complete financial statements for the Charter Township of Oscoda Downtown Development Authority may be obtained from the Charter Township of Oscoda Treasurer's office.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter Township of Oscoda Superintendent, 1110 South State Street, Oscoda, Michigan, 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET ASSETS
December 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,732,958	\$ 1,793,194	\$ 3,526,152	\$ 267,443
Investments (Note 3)	1,175,481	2,691,607	3,867,088	0
Receivables:				
Taxes (Note 5)	1,236,654	0	1,236,654	0
Accounts, net	8,863	191,086	199,949	0
Special assessments	22,658	0	22,658	0
Due from local units	11,919	2,179	14,098	0
Due from fiduciary funds (Note 4)	9,437	0	9,437	0
Due from component unit (Note 4)	222	0	222	0
Due from federal	0	296,025	296,025	0
Due from state	102,592	0	102,592	0
Internal balances	44,596	(44,596)	0	0
Prepaid expenses	1,070	0	1,070	0
Inventory	0	2,371	2,371	0
Total current assets	4,346,450	4,931,866	9,278,316	267,443
Restricted assets:				
Cash and cash equivalents (Note 3)	81,810	67,197	149,007	0
Cash held in escrow (Note 3)	0	544,353	544,353	0
Investments (Note 3)	909,456	955,665	1,865,121	0
Total restricted assets	991,266	1,567,215	2,558,481	0
Noncurrent assets:				
Land contracts receivable	491,861	0	491,861	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,128,667	4,128,667	0
Contract issuance costs, net (Note 1)	0	21,390	21,390	0
Contract discount, net (Note 1)	0	26,573	26,573	0
Capital assets, net (Note 6)	7,719,429	7,752,016	15,471,445	0
Total noncurrent assets	8,211,290	11,928,646	20,139,936	0
Total Assets	13,549,006	18,427,727	31,976,733	267,443
<u>Liabilities</u>				
Accounts payable	88,997	29,852	118,849	0
Accounts payable - contracts	0	34,292	34,292	0
Deposits payable	1,800	0	1,800	0
Accrued interest	3,650	40,785	44,435	0
Due to local units	2,951	0	2,951	0
Due to other agencies/individuals	515	0	515	0
Due to primary government (Note 4)	0	0	0	222
Due to state	14,122	15,851	29,973	0
Deferred revenue (Notes 5 and 7)	1,267,096	85,627	1,352,723	0
Long-term liabilities:				
Due within one year (Note 8)	56,025	443,122	499,147	0
Due in more than one year (Note 8)	292,911	5,515,671	5,808,582	0
Total Liabilities	1,728,067	6,165,200	7,893,267	222
<u>Net Assets</u>				
Investment in capital assets, net of related debt	7,459,350	3,847,016	11,306,366	0
Restricted for:				
Cemetery	184,968	0	184,968	0
Base closure future developments	806,298	0	806,298	0
Improvements	0	682,323	682,323	0
Debt service	11,517	884,892	896,409	0
Unrestricted	3,358,806	6,848,296	10,207,102	267,221
Total Net Assets	\$ 11,820,939	\$ 12,262,527	\$ 24,083,466	\$ 267,221

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Downtown Development Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 900,484	\$ 104,797	\$ 1,924	\$ 0	\$ (793,763)	\$ 0	\$ (793,763)	
Public safety	1,128,829	310,030	13,976	0	(804,823)	0	(804,823)	
Public works	154,444	41,461	0	0	(112,983)	0	(112,983)	
Community and economic development	585,350	111,800	1,631	0	(471,919)	0	(471,919)	
Recreation and cultural	264,749	37,745	2,905	0	(224,099)	0	(224,099)	
Other	17	0	0	0	(17)	0	(17)	
Interest on long-term debt	16,507	0	0	0	(16,507)	0	(16,507)	
Total governmental activities	3,050,380	605,833	20,436	0	(2,424,111)	0	(2,424,111)	
Business-type activities:								
Sewage disposal system	711,761	595,074	0	573,293	0	456,606	456,606	
Water services	926,402	1,244,477	0	0	0	318,075	318,075	
Housing	19,991	115,768	0	0	0	95,777	95,777	
Old orchard park	567,215	730,221	0	21,568	0	184,574	184,574	
Community center	134,275	48,962	0	0	0	(85,313)	(85,313)	
Exposition center	6,481	4,989	0	0	0	(1,492)	(1,492)	
Total business-type activities	2,366,125	2,739,491	0	594,861	0	968,227	968,227	
Total primary government	\$ 5,416,505	\$ 3,345,324	\$ 20,436	\$ 594,861	(2,424,111)	968,227	(1,455,884)	
Component Unit:								
Downtown development authority	\$ 751	\$ 0	\$ 0	\$ 0				\$ (751)
General Revenues:								
Property taxes levied for:								
General operating					1,149,666	0	1,149,666	0
TIFA					0	0	0	32,125
Payment in lieu of taxes					30,594	0	30,594	0
State revenue sharing					594,723	0	594,723	0
Rent income					288,894	50,315	339,209	0
Investment earnings					93,210	76,292	169,502	2,058
Sale of capital assets					221,782	0	221,782	0
Other					34,325	2,167	36,492	0
Transfers					91,962	(91,962)	0	0
Total general revenues and transfers					2,505,156	36,812	2,541,968	34,183
Change in net assets					81,045	1,005,039	1,086,084	33,432
Net assets - beginning of year, as restated (Note 2)					11,739,894	11,257,488	22,997,382	233,789
Net assets - end of year					\$ 11,820,939	\$ 12,262,527	\$ 24,083,466	\$ 267,221

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2004

	General	Police Fund	Property Operation and Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents (Note 3)	\$ 565,512	\$ 226,263	\$ 583,362	\$ 357,821	\$ 1,732,958
Investments (Note 3)	686,077	58,877	0	430,527	1,175,481
Receivables:					
Taxes (Note 5)	1,236,585	69	0	0	1,236,654
Accounts, net	132	38	8,693	0	8,863
Land contracts	0	0	491,861	0	491,861
Special assessments	558	0	0	22,100	22,658
Due from local units	6,677	0	5,242	0	11,919
Due from component unit (Note 4)	222	0	0	0	222
Due from state	102,592	0	0	0	102,592
Due from other funds (Note 4)	1,514	0	0	52,519	54,033
Prepaid expenses	1,070	0	0	0	1,070
Restricted assets:					
Cash and cash equivalents (Note 3)	0	0	0	81,810	81,810
Investments (Note 3)	0	0	0	909,456	909,456
Total Assets	<u>\$ 2,600,939</u>	<u>\$ 285,247</u>	<u>\$ 1,089,158</u>	<u>\$ 1,854,233</u>	<u>\$ 5,829,577</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts payable	\$ 54,125	\$ 11,115	\$ 21,477	\$ 2,280	\$ 88,997
Deposits payable	1,800	0	0	0	1,800
Due to local units	2,951	0	0	0	2,951
Due to other agencies/individuals	515	0	0	0	515
Due to state	5,386	1,934	6,559	243	14,122
Deferred revenue (Note 7)	1,205,237	259	0	61,600	1,267,096
Total liabilities	<u>1,270,014</u>	<u>13,308</u>	<u>28,036</u>	<u>64,123</u>	<u>1,375,481</u>
<u>Fund Equity</u>					
Fund balances:					
Reserved for:					
Cemetery	0	0	0	184,968	184,968
Base closure future developments	0	0	0	806,298	806,298
Debt service	0	0	0	11,517	11,517
Unreserved, reported in:					
General fund	1,330,925	0	0	0	1,330,925
Special revenue funds	0	271,939	1,061,122	787,327	2,120,388
Total fund equity	<u>1,330,925</u>	<u>271,939</u>	<u>1,061,122</u>	<u>1,790,110</u>	<u>4,454,096</u>
Total Liabilities and Fund Equity	<u>\$ 2,600,939</u>	<u>\$ 285,247</u>	<u>\$ 1,089,158</u>	<u>\$ 1,854,233</u>	<u>\$ 5,829,577</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2004

Total governmental fund balances		\$ 4,454,096
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 10,073,492	
Capital asset accumulated depreciation	<u>(2,354,063)</u>	
		7,719,429
Accrued interest on long-term debt		(3,650)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Land contract payable	(33,148)	
Capital lease payable	(46,931)	
Bonds payable	(180,000)	
Compensated absences payable	<u>(88,857)</u>	
Total long-term liabilities		<u>(348,936)</u>
Total net assets - governmental activities		<u>\$ 11,820,939</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

	General	Police Fund	Property Operation and Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>					
Taxes	\$ 1,180,260	\$ 0	\$ 0	\$ 0	\$ 1,180,260
Special assessments	0	0	0	26,931	26,931
Federal grants	0	2,022	0	4,812	6,834
State grants and revenue	594,723	10,454	0	0	605,177
Contributions from local units	0	0	0	19,522	19,522
Private contributions	2,924	500	0	2,905	6,329
Charges for services	178,963	254,511	110,233	4,399	548,106
Licenses and permits	5,968	0	0	0	5,968
Interest and rentals	41,148	2,348	299,644	38,964	382,104
Fines and forfeits	0	2,125	0	0	2,125
Other revenue	11,341	17,214	0	5,770	34,325
Total revenue	<u>2,015,327</u>	<u>289,174</u>	<u>409,877</u>	<u>103,303</u>	<u>2,817,681</u>
<u>Expenditures</u>					
Current:					
General government	896,432	0	0	150	896,582
Public safety	183,143	870,116	0	0	1,053,259
Public works	126,068	0	0	11,167	137,235
Community and economic development	66,906	0	290,289	145,046	502,241
Recreation and cultural	157,004	0	0	87,164	244,168
Other	0	0	0	17	17
Capital outlay	324,989	83,347	0	50,506	458,842
Debt service:					
Principal	0	0	0	54,223	54,223
Interest and fiscal charges	0	0	0	17,378	17,378
Total expenditures	<u>1,754,542</u>	<u>953,463</u>	<u>290,289</u>	<u>365,651</u>	<u>3,363,945</u>
Excess of revenue over (under) expenditures	<u>260,785</u>	<u>(664,289)</u>	<u>119,588</u>	<u>(262,348)</u>	<u>(546,264)</u>
Other Financing Sources (Uses):					
Sale of capital assets	0	1,550	220,232	0	221,782
Operating transfers in	282,076	615,745	0	320,530	1,218,351
Operating transfers out	<u>(643,745)</u>	<u>0</u>	<u>(120,500)</u>	<u>(362,144)</u>	<u>(1,126,389)</u>
Total other financing sources (uses)	<u>(361,669)</u>	<u>617,295</u>	<u>99,732</u>	<u>(41,614)</u>	<u>313,744</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(100,884)</u>	<u>(46,994)</u>	<u>219,320</u>	<u>(303,962)</u>	<u>(232,520)</u>
Fund balances - beginning of year	<u>1,431,809</u>	<u>318,933</u>	<u>841,802</u>	<u>2,094,072</u>	<u>4,686,616</u>
Fund balances - end of year	<u>\$ 1,330,925</u>	<u>\$ 271,939</u>	<u>\$ 1,061,122</u>	<u>\$ 1,790,110</u>	<u>\$ 4,454,096</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

Total net change in fund balances - governmental funds	\$	(232,520)
--	----	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$	(206,435)
Capital asset additions reported as capital outlay in the governmental funds		<u>458,842</u>
Net difference		252,407

Principal repayments on land contracts, capital leases and bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Land contract payable	10,316	
Capital lease payable	13,907	
Bonds payable	<u>30,000</u>	
Net difference		54,223

Net change in accrued interest on long-term liabilities:

Accrued interest on long-term liabilities December 31, 2003	4,521	
Accrued interest on long-term liabilities December 31, 2004	<u>(3,650)</u>	
Net change		871

Net change in accrued compensated absences:

Accrued compensated absences December 31, 2003	94,921	
Accrued compensated absences December 31, 2004	<u>(88,857)</u>	
Net change		<u>6,064</u>

Change in net assets of governmental activities	\$	<u>81,045</u>
---	----	---------------

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
December 31, 2004

	Enterprise Funds					
	Major Funds					
	Sewage Disposal System Fund	Water Fund	Housing Fund	Old Orchard Park Fund	Nonmajor Funds	Total
<u>Assets</u>						
Current assets:						
Cash and cash equivalents (Note 3)	\$ 379,665	\$ 525,431	\$ 347,232	\$ 467,706	\$ 73,160	\$ 1,793,194
Investments (Note 3)	459,495	657,924	1,415,828	158,360	0	2,691,607
Receivables:						
Accounts, net	67,519	123,527	0	0	40	191,086
Due from local units	0	2,179	0	0	0	2,179
Due from federal	296,025	0	0	0	0	296,025
Due from other funds (Note 4)	25,511	0	0	100	0	25,611
Inventory	0	0	0	2,371	0	2,371
Total current assets	1,228,215	1,309,061	1,763,060	628,537	73,200	5,002,073
Restricted assets:						
Cash and cash equivalents (Note 3)	65,955	1,242	0	0	0	67,197
Cash held in escrow (Note 3)	544,353	0	0	0	0	544,353
Investments (Note 3)	388,445	567,220	0	0	0	955,665
Total restricted assets	998,753	568,462	0	0	0	1,567,215
Noncurrent assets:						
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,128,667	0	0	0	4,128,667
Contract issuance costs, net (Note 1)	21,390	0	0	0	0	21,390
Contract discount, net (Note 1)	26,573	0	0	0	0	26,573
Capital assets, net (Note 6)	3,894,922	3,407,460	0	362,200	87,434	7,752,016
Total noncurrent assets	3,942,885	7,536,127	0	362,200	87,434	11,928,646
Total Assets	6,169,853	9,413,650	1,763,060	990,737	160,634	18,497,934
<u>Liabilities</u>						
Current liabilities:						
Accounts payable	10,564	737	5,921	6,531	6,099	29,852
Accounts payable - contracts	20,575	13,717	0	0	0	34,292
Accrued interest	16,703	24,082	0	0	0	40,785
Due to state	22	44	0	13,588	2,197	15,851
Due to other funds (Note 4)	0	25,511	0	44,596	100	70,207
Deferred revenue (Note 7)	0	0	0	85,627	0	85,627
Bonds payable, current (Note 8)	0	155,000	0	0	0	155,000
Contracts payable, current (Note 8)	0	288,122	0	0	0	288,122
Total current liabilities	47,864	507,213	5,921	150,342	8,396	719,736
Noncurrent liabilities:						
Accrued compensated absences payable (Note 8)	0	0	0	6,816	350	7,166
Bonds payable (Note 8)	1,160,000	320,000	0	0	0	1,480,000
Contracts payable (Note 8)	2,270,000	1,758,505	0	0	0	4,028,505
Total noncurrent liabilities	3,430,000	2,078,505	0	6,816	350	5,515,671
Total Liabilities	3,477,864	2,585,718	5,921	157,158	8,746	6,235,407
<u>Net Assets</u>						
Investment in capital assets, net of related debt	464,922	2,932,460	0	362,200	87,434	3,847,016
Restricted for:						
Improvements	614,036	68,287	0	0	0	682,323
Debt service	384,717	500,175	0	0	0	884,892
Unrestricted	1,228,314	3,327,010	1,757,139	471,379	64,454	6,848,296
Total Net Assets	\$ 2,691,989	\$ 6,827,932	\$ 1,757,139	\$ 833,579	\$ 151,888	\$ 12,262,527

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2004

	Enterprise Funds					
	Major Funds				Nonmajor Funds	Total
	Sewage Disposal System Fund	Water Fund	Housing Fund	Old Orchard Park Fund		
Operating Revenue:						
Charges for services	\$ 580,891	\$ 1,160,005	\$ 0	\$ 0	\$ 44,478	\$ 1,785,374
Penalties	8,683	22,472	0	25	0	31,180
User fees	0	0	0	621,596	9,473	631,069
Housing sales	0	0	115,768	0	0	115,768
Tap fees	5,500	62,000	0	0	0	67,500
Store sales	0	0	0	108,600	0	108,600
Rents	0	38,400	0	3,660	8,255	50,315
Other	172	0	0	1,831	164	2,167
Total operating revenue	595,246	1,282,877	115,768	735,712	62,370	2,791,973
Operating Expenses:						
Salaries and wages	8,830	17,042	0	211,709	42,139	279,720
Payroll taxes and fringe benefits	776	1,478	103	67,608	5,949	75,914
Office and operating supplies	13,963	10,777	0	101,973	16,114	142,827
Communications	161	767	0	1,675	1,471	4,074
Professional fees and services	270,228	575,340	19,888	10,724	7,501	883,681
Gasoline and oil	363	88	0	9,027	0	9,478
Licenses and permits	0	0	0	3,097	0	3,097
Travel and training	0	0	0	0	627	627
Insurance and bonds	8,187	8,131	0	7,956	10,836	35,110
Repair and maintenance	5,823	2,176	0	58,745	19,033	85,777
Rent	880	0	0	3,046	0	3,926
Utilities	89,979	2,075	0	49,220	35,233	176,507
Equipment	0	0	0	14,375	0	14,375
Depreciation and amortization	134,416	143,931	0	27,812	1,847	308,006
Other	1,055	308	0	248	6	1,617
Total operating expenses	534,661	762,113	19,991	567,215	140,756	2,024,736
Operating income (loss)	60,585	520,764	95,777	168,497	(78,386)	767,237
Non-operating Revenue (Expenses):						
Federal revenue	573,293	0	0	0	0	573,293
State grants	0	0	0	21,568	0	21,568
Interest earned on investments	26,632	26,329	17,836	4,940	555	76,292
Interest expense and paying agent fees	(177,100)	(164,289)	0	0	0	(341,389)
Total non-operating revenue (expenses)	422,825	(137,960)	17,836	26,508	555	329,764
Income (loss) before operating transfers	483,410	382,804	113,613	195,005	(77,831)	1,097,001
Other Financing Sources (Uses):						
Operating transfers in	0	0	0	31,113	122,425	153,538
Operating transfers out	(10,000)	0	0	(235,500)	0	(245,500)
Total other financing sources (uses)	(10,000)	0	0	(204,387)	122,425	(91,962)
Change in net assets	473,410	382,804	113,613	(9,382)	44,594	1,005,039
Net assets - beginning of year, as restated (Note 2)	2,218,579	6,445,128	1,643,526	842,961	107,294	11,257,488
Net assets - end of year	\$ 2,691,989	\$ 6,827,932	\$ 1,757,139	\$ 833,579	\$ 151,888	\$ 12,262,527

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
For the Year Ended December 31, 2004

	Enterprise Funds					
	Major Funds					
	Sewage Disposal System Fund	Water Fund	Housing Fund	Old Orchard Park Fund	Nonmajor Funds	Total
Cash Flows From Operating Activities:						
Cash received from customers	\$ 600,938	\$ 1,286,882	\$ 115,768	\$ 731,963	\$ 62,350	\$ 2,797,901
Cash payments to suppliers and employees	(412,143)	(619,203)	(14,070)	(535,481)	(138,848)	(1,719,745)
Net cash provided (used) by operating activities	188,795	667,679	101,698	196,482	(76,498)	1,078,156
Cash Flows From Non-Capital Financing Activities:						
Cash received from (paid to) other funds	(35,511)	25,511	0	(159,891)	122,525	(47,366)
Cash Flows From Capital and Related Financing Activities:						
Federal grants received	853,975	0	0	0	0	853,975
Acquisition and construction of capital assets	(1,666,641)	(105,303)	0	(57,050)	(89,281)	(1,918,275)
Principal paid on long-term debt	(150,000)	(990,890)	0	0	0	(1,140,890)
Interest paid on long-term debt	(182,668)	(170,717)	0	0	0	(353,385)
Net cash used by capital and related financing activities	(1,145,334)	(1,266,910)	0	(57,050)	(89,281)	(2,558,575)
Cash Flows From Investing Activities:						
Interest on investments	26,632	26,329	17,836	4,940	555	76,292
Purchase of investment securities	(92,379)	(295,786)	(712,304)	(52,671)	0	(1,153,140)
Net cash provided (used) by investing activities	(65,747)	(269,457)	(694,468)	(47,731)	555	(1,076,848)
Net decrease in cash and cash equivalents	(1,057,797)	(843,177)	(592,770)	(68,190)	(42,699)	(2,604,633)
Cash and cash equivalents at beginning of year (Note 1)	2,047,770	1,369,850	940,002	535,896	115,859	5,009,377
Cash and cash equivalents at end of year (Note 1)	\$ 989,973	\$ 526,673	\$ 347,232	\$ 467,706	\$ 73,160	\$ 2,404,744
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>						
Operating income (loss)	\$ 60,585	\$ 520,764	\$ 95,777	\$ 168,497	\$ (78,386)	\$ 767,237
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization expense	134,416	143,931	0	27,812	1,847	308,006
Change in assets and liabilities:						
Accounts receivable, net	(6,391)	142	0	0	(20)	(6,269)
Due from local units	12,083	3,863	0	0	0	15,946
Deferred revenue	0	0	0	(3,749)	0	(3,749)
Inventory	0	0	0	615	0	615
Accounts and other payables	(11,899)	(1,022)	5,921	1,190	(1,437)	(7,247)
Due to state	1	1	0	1,809	1,375	3,186
Accrued compensated absences	0	0	0	308	123	431
Net cash provided (used) by operating activities	\$ 188,795	\$ 667,679	\$ 101,698	\$ 196,482	\$ (76,498)	\$ 1,078,156

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
December 31, 2004

	<u>Trust and Agency</u>	<u>Tax Account</u>	<u>Cedar Lake Improvement Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 3)	\$ 7,772	\$ 1,596,004	\$ 636	\$ 1,604,412
<u>LIABILITIES</u>				
Due to other agencies and individuals	\$ 7,741	\$ 0	\$ 636	\$ 8,377
Due to other funds (Note 4)	31	9,406	0	9,437
Deferred revenue (Note 5)	<u>0</u>	<u>1,586,598</u>	<u>0</u>	<u>1,586,598</u>
Total Liabilities	<u>\$ 7,772</u>	<u>\$ 1,596,004</u>	<u>\$ 636</u>	<u>\$ 1,604,412</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Oscoda conform in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Township Operations

The Charter Township of Oscoda was organized in 1970 under the Charter Township Act of 1947 and covers an area of approximately 120 square miles. The Charter Township operates under an elected Board (seven members) and provides services to its residents in many areas including law enforcement, fire protection, library, and water and sewer services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, board, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs of services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations for which the Township approves the budget, the issuance of debt, or the levying of taxes.

Discretely Presented Component Unit

The component unit column in the Statement of Net Assets and the Statement of Activities represents the financial data of the Charter Township of Oscoda Downtown Development Authority. The Downtown Development Authority is reported in a separate column to emphasize that it is legally separate from the Township. The governing body of this component unit is appointed by the Township Board. The Authority was established to halt property value deterioration and to increase property tax valuation where possible in the business district of the Township, to eliminate the causes of that deterioration and to promote economic growth. Complete financial statements can be obtained from the Charter Township of Oscoda Treasurer's office.

C. Joint Ventures

The Township has entered into several joint ventures with various municipalities described as follows:

1. AuSable Township Building Authority:

The Building Authority was established to provide for the acquisition and construction of certain public buildings, parking lots or structures, recreational facilities and the necessary sites therefore. Complete financial statements can be obtained from the AuSable Township Clerk's office, located at 311 Fifth Street, Oscoda, Michigan 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

2. AuSable-Oscoda Joint Industrial Park Fund:

The purpose of the Joint Industrial Park Fund is to promote, purchase and sell certain industrial properties known as the AuSable-Oscoda Industrial Park. All costs and expenses net of funds received from County, State and Federal Governments are to be shared on an equal basis. The Township did not remit any funds to the Industrial Park for the year ended December 31, 2004. On dissolution of the Industrial Park, the net assets will be shared equally by the two Townships. Complete financial statements can be obtained from the AuSable Township Clerk's office, located at 311 Fifth Street, Oscoda, Michigan 48750.

3. Huron Shore Regional Utility Authority:

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Charter Township of Oscoda's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 43.72% of the total bond issue of \$7,930,000 or \$3,466,996. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of Oscoda is making payments through charges for services.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Township of AuSable, City of Tawas City and the Township of Baldwin. The most current estimate of the Township's share is 51.89% of the total bond issue of \$1,300,000 or \$674,570. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of Oscoda is making payments through charges for services. Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Charter Township of Oscoda's contribution for the year ended December 31, 2004 was \$395,189. The current value of the Charter Township of Oscoda's investment in the Huron Shore Regional Utility Authority is \$4,128,667. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Jointly Governed Organizations

1. Oscoda-Wurtsmith Airport Authority:

The Oscoda-Wurtsmith Airport Authority functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Airport Authority was established to provide for planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities necessary thereto, at the former Wurtsmith Air Force Base, for the purpose of providing a Community Airport. The Charter Township of Oscoda has no financial obligation to the Airport Authority. Complete financial statements can be obtained from the Airport Authority Manager's office at 3961 East Airport Drive, Oscoda, Michigan 48750.

2. Wurtsmith Development Commission:

The Wurtsmith Development Commission functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Wurtsmith Development Commission was established for the purpose of temporary caretaking of the former Wurtsmith Air Force Base. The Charter Township of Oscoda has no financial obligation to the Wurtsmith Development Commission. Complete financial statements can be obtained from the Development Commission's office located on the former Wurtsmith Air Force Base, Oscoda, Michigan.

D. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Police Fund – This fund accounts for the revenues and expenses required to operate the Township Police Department. The primary sources of revenue are contributions from the General Fund in the case of Oscoda Township and monthly payments from AuSable Township.

Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts for base property as well as other miscellaneous income including grants as they might become available.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Township's major enterprise funds:

Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the new lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees.

Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.

Housing Fund - This fund accounts for revenues and expenses associated with the sale and redevelopment of the former Wurtsmith Air Force Base family housing area. Any activity relating to demolition of housing is also budgeted in this fund.

Old Orchard Park Fund - This fund was created when the Township acquired leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through inter budgetary transfers.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Charter Township of Oscoda uses these funds to account for payroll tax withholdings and the eventual payment of the liability, as well as property tax collections.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus.

All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available, means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Township, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax) grants, interest, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Enterprise Fund Restricted Assets

Restricted assets are those assets required to meet the covenants and conditions of bond indentures and other contract agreements.

J. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

K. Receivables

Receivables at December 31, 2004, consist of accounts (fees), taxes, special assessments and charges for sewer and water services due from various customers. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

No allowance for doubtful accounts was deemed necessary at December 31, 2004.

L. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Similar activities in which a component unit is a party are captioned as "receivables" or "payables" for both the current and non-current portions between a component unit and the primary government. Balances to which a fiduciary fund is a party are treated as external receivables and payables.

M. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government wide and fund financial statements.

N. Inventory

Inventory is recorded in the Old Orchard Park Fund at the lower of cost or market, with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Charges

Contract issuance costs and contract discounts are deferred and amortized over the term of the contract using the straight-line method since the results are not significantly different from the effective interest method.

P. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$7,500, or \$5,000 if purchased with federal funds, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	40 years
Land Improvements	20 - 30 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 15 years
Infrastructure	5 - 50 years

Q. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the Township will compensate the employees for the benefits through paid time off or some other means. The Township records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Township has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration limits specified in the Township's termination policy. The Township records a liability for sick leave earned at varying rates depending on the Township's policy.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Compensated Absences (Continued)

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave as paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

R. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

S. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

T. Governmental Fund Balance Reserves

The Township reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

Fund balance reserves represent the assets in the Public Improvement Fund to be used for future cemetery expansion, the Base Closure Fund for future developments, and the Streetscape Debt Service Fund for future debt service.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are housing sales and charges for services for water, sewer, community center, exposition center and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

W. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

A. Change in Accounting Principles

For 2004, the Township has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; Number 34, "Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, " Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the Township's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the Township's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2004 caused by the conversion to the accrual basis of accounting.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 2- CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY (CONTINUED)A. Change in Accounting Principles (Continued)

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the Enterprise funds of the Township as it was previously reported.

	<u>Sewage Disposal System Fund</u>	<u>Water Fund</u>	<u>Old Orchard Park Fund</u>	<u>Health and Community Center Fund</u>
Retained Earnings December 31,2003	\$ 2,121,568	\$ 3,939,867	\$ 849,469	\$ 91,176
Restatement of contributed capital in accordance with GASB Statement No. 33	119,282	725,024	0	0
Adjustments to investments in other entities to reflect payments reported as expenses in prior years as a result of the adoption of GASB Statement No. 34 (including accrued interest at December 31,2003)	(22,271)	1,780,237	0	0
Recording of compensated absences in accordance with GASB Statement No. 34	<u>0</u>	<u>0</u>	<u>(6,508)</u>	<u>(227)</u>
Restated Net Assets – December 31,2003	<u>\$ 2,218,579</u>	<u>\$ 6,445,128</u>	<u>\$ 842,961</u>	<u>\$ 90,949</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
<u>Current Assets</u>					
Cash and Cash Equivalents	\$ 1,732,958	\$ 1,793,194	\$ 1,604,412	\$ 5,130,564	\$ 267,443
Investments	<u>1,175,481</u>	<u>2,691,607</u>	<u>0</u>	<u>3,867,088</u>	<u>0</u>
Total Current Assets	<u>2,908,439</u>	<u>4,484,801</u>	<u>1,604,412</u>	<u>8,997,652</u>	<u>267,443</u>
<u>Restricted Assets</u>					
Cash and Cash Equivalents	81,810	67,197	0	149,007	0
Cash held in Escrow	0	544,353	0	544,353	0
Investments	<u>909,456</u>	<u>955,665</u>	<u>0</u>	<u>1,865,121</u>	<u>0</u>
Total Restricted Assets	<u>991,266</u>	<u>1,567,215</u>	<u>0</u>	<u>2,558,481</u>	<u>0</u>
	<u>\$ 3,899,705</u>	<u>\$ 6,052,016</u>	<u>\$ 1,604,412</u>	<u>\$ 11,556,133</u>	<u>\$ 267,443</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 7,211,972	\$ 521
Cash held in Escrow	<u>544,353</u>	<u>0</u>
Total Deposits	7,756,325	521
Investments in Municipal Investment Account Pooled Funds and Similar Vehicles	3,798,358	266,922
Petty Cash and Cash on Hand	<u>1,450</u>	<u>0</u>
Total	<u>\$ 11,556,133</u>	<u>\$ 267,443</u>

Deposits:

Deposits are carried at cost. Deposits of the Township are held at various banks in the name of the Township Treasurer. At December 31, 2004, the carrying amounts of the Township's and its component unit's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Primary Government</u>		
Insured (FDIC, FSLIC and SIPC)	\$ 642,525	\$ 642,525
Uninsured – uncollateralized	<u>7,113,800</u>	<u>7,205,329</u>
Total primary government	7,756,325	7,847,854
<u>Component Unit</u>		
Insured (FDIC, FSLIC and SIPC)	<u>521</u>	<u>521</u>
Total deposits reporting entity	<u>\$ 7,756,846</u>	<u>\$ 7,848,375</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at December 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at December 31, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Primary Government</u>		
<u>Nonrisk Categorized</u>		
Municipal Investment Account		
Pooled Funds and Similar Vehicles	\$ 3,798,358	\$ 3,798,358
<u>Component Unit</u>		
<u>Nonrisk Categorized</u>		
Municipal Investment Account		
Pooled Funds and Similar Vehicles	<u>266.922</u>	<u>266.922</u>
Total Reporting Entity	<u>\$ 4,065,280</u>	<u>\$ 4,065,280</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 4 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of December 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ <u>1,514</u>	\$ <u>0</u>
Non-major Governmental Funds	<u>52,519</u>	<u>0</u>
Major Enterprise Funds:		
Sewage Disposal System Fund	25,511	0
Water Fund	0	25,511
Old Orchard Park Fund	<u>100</u>	<u>44,596</u>
Total Major Enterprise Funds	<u>25,611</u>	<u>70,107</u>
Non-major Enterprise Funds	<u>0</u>	<u>100</u>
Fiduciary Funds	<u>0</u>	<u>9,437</u>
	<u>\$ 79,644</u>	<u>\$ 79,644</u>

The amounts of interfund receivables and payables as of December 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
<u>Primary Government</u>		<u>Primary Government</u>	
General Fund	\$ 31	Trust and Agency Fund	\$ 31
General Fund	1,483	Tax Account Fund	1,483
Old Orchard Park Improvement Fund	44,596	Old Orchard Park Fund	44,596
Debt Service Fund	7,923	Tax Account Fund	7,923
Sewage Disposal System Fund	25,511	Water Fund	25,511
Old Orchard Park Fund	<u>100</u>	Community Center Fund	<u>100</u>
Total primary government	<u>\$ 79,644</u>	Total primary government	<u>\$ 79,644</u>
<u>Due From Component Unit</u>		<u>Due to Primary Government</u>	
General Fund	<u>\$ 222</u>	Downtown Development Authority	<u>\$ 222</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 5 - PROPERTY TAXES

Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 28. Township taxes levied December 1 are considered revenue for the subsequent year; therefore, taxes receivable in the governmental funds have been offset by deferred revenue. Real and personal property for the December 1, 2004 levy had a taxable value of \$250,445,870 and equalized at \$303,476,000, representing 50% of estimated current market value. The 2004 operating tax rates are currently 4.6960 mills for operating.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,349,257	\$ 0	\$ 0	\$ 4,349,257
Capital Assets Being Depreciated:				
Buildings and Improvements	3,097,400	249,766	0	3,347,166
Land Improvements	658,249	72,223	0	730,472
Machinery and Equipment	299,804	30,406	0	330,210
Vehicles	<u>1,230,638</u>	<u>106,447</u>	<u>20,698</u>	<u>1,316,387</u>
Subtotal	<u>5,286,091</u>	<u>458,842</u>	<u>20,698</u>	<u>5,724,235</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	745,034	80,526	0	825,560
Land Improvement s	334,964	28,455	0	363,419
Machinery and Equipment	83,367	31,944	0	115,311
Vehicles	<u>1,004,961</u>	<u>65,510</u>	<u>20,698</u>	<u>1,049,773</u>
Subtotal	<u>2,168,326</u>	<u>206,435</u>	<u>20,698</u>	<u>2,354,063</u>
Net Capital Assets Being Depreciated	<u>3,117,765</u>	<u>252,407</u>	<u>0</u>	<u>3,370,172</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,467,022</u>	<u>\$ 252,407</u>	<u>\$ 0</u>	<u>\$ 7,719,429</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 6 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 22,885	\$ 0	\$ 0	\$ 22,885
Construction in Progress	<u>1,231,671</u>	<u>128,733</u>	<u>1,231,671</u>	<u>128,733</u>
Subtotal	<u>1,254,556</u>	<u>128,733</u>	<u>1,231,671</u>	<u>151,618</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	296,169	33,097	0	329,266
Land Improvement	31,324	56,184	0	87,508
Vehicles	24,461	0	0	24,461
Infrastructure	10,440,392	2,909,669	0	13,350,061
Machinery and Equipment	<u>327,328</u>	<u>22,265</u>	<u>0</u>	<u>349,593</u>
Subtotal	<u>11,119,674</u>	<u>3,021,215</u>	<u>0</u>	<u>14,140,889</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	31,539	16,187	0	47,726
Land Improvement	632	2,034	0	2,666
Vehicles	7,416	4,892	0	12,308
Infrastructure	5,923,891	260,957	0	6,184,848
Machinery and Equipment	<u>277,355</u>	<u>15,588</u>	<u>0</u>	<u>292,943</u>
Subtotal	<u>6,240,833</u>	<u>299,658</u>	<u>0</u>	<u>6,540,491</u>
Net Capital Assets Being Depreciated	<u>4,878,841</u>	<u>2,721,557</u>	<u>0</u>	<u>7,600,398</u>
Business-Type Activities Total Capital Assets - Net of Depreciation	<u>\$ 6,133,397</u>	<u>\$ 2,850,290</u>	<u>\$ 1,231,671</u>	<u>\$ 7,752,016</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities :

General government	\$ 11,181
Public safety	76,734
Public works	17,209
Community and economic development	81,238
Recreation and cultural	<u>20,073</u>

Total Governmental Activities \$ 206,435

Business-Type Activities :

Sewer	\$ 131,977
Water	138,022
Old Orchard Park	27,812
Community Center	<u>1,847</u>

Total Business-Type Activities \$ 299,658

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 7 - DEFERRED REVENUE - SPECIAL ASSESSMENTS

Various special assessment districts have been established which are to be levied over 10-20 year periods with interest at 6-7%. Revenue is recognized each year by each specific district over the number of years of the levy. These assessments are to be used to finance additions to the system and to meet contractual obligations referred to in the subsequent notes.

NOTE 8 - LONG-TERM DEBT

At December 31, 2004, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u>		
A. Contracts Payable		
\$2,270,000 Iosco County, Oscoda Township sewage disposal system contract, dated September 1, 2003 for the purpose of acquiring sewage disposal system facilities and providing sewer service to Oscoda Township. The Township's obligation for the bond through Iosco County bears interest from 4.10% to 4.90% and is due in annual installments beginning 2006 through 2024.	\$ 0	\$ 2,270,000
Joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water Sewer System No. 1, with the Township of AuSable, the Township of Baldwin, and the City of Tawas City bonds dated November 1, 1995 due in annual installments through May 1, 2015 and bearing interest at 4.4% to 5.625%. The most current estimate of the Township's share is 51.89% of the total bond issue of \$1,300,000 or \$674,570.	0	544,845
Joint water supply system agreement with the Cities of East Tawas and Tawas City, the Township of AuSable, and the Township of Baldwin through the Huron Shore Regional Utility Authority to finance the cost of constructing a new water supply system to serve both cities and the three Townships. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991 due in annual installments through November 1, 2010, bearing interest rates at 4% to 5.65%. The most current estimate of the Township's share is 43.72% of the total bond issue of \$7,930,000 or \$3,466,996.	<u>0</u>	<u>1,501,782</u>
	<u>0</u>	<u>4,316,627</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u> (Continued)		
B. General Obligation Bonds Payable:		
\$3,800,000 Sewage Disposal System Fund bond dated July 1, 1973. For the purpose of paying the cost of constructing a sanitary sewage collection and treatment system. The bonds bear interest at 2.5% and are due in annual installments through 2013.	\$ 0	\$ 1,160,000
\$1,275,000 Limited Tax General Obligation Water Refunding Bonds dated September 10, 1998. Issued in order to provide funds for the purpose of advance refunding the County's Iosco County Water Supply System Limited Tax General Obligation Bonds, dated September 1, 1990. These Bonds bear interest from 3.75% to 4.35% and are due in annual installments through 2007.	<u>0</u>	<u>475,000</u>
	<u>0</u>	<u>1,635,000</u>
C. Special Assessment Bonds Payable:		
<u>Special Assessment Bond</u>		
\$285,000 Lakefront District Improvement Bond series 2000-A dated July 1, 2000. The bonds were issued to provide funds for the acquisition and construction of sidewalk and street light improvements in the Phase I and II improvements Special Assessment District. The bonds bear interest of 6.75% and are due in annual installments through 2010.	<u>180,000</u>	<u>0</u>
D. <u>Land Contract Payable</u>		
On May 31, 1995 land was purchased for \$132,500; \$30,000 cash and the remainder in the form of a land contract payable in monthly installments of \$1,151 including interest of 9.0% on the unpaid balance to Kenneth and Linda Tapner through 2007.	<u>33,148</u>	<u>0</u>
E. <u>Capital Lease Payable</u>		
Lease purchase agreement with Bank One Lease Corporation for the purchase of a 1997 Pierce Saber Fire Truck on June 23, 1997. The Township paid \$226,066 for the equipment; \$96,842 cash and \$129,224 in the form of a lease purchase agreement. The lease is payable in annual installments of \$17,557 including interest at 6.00% through 2007. The lease is secured by the equipment.	\$ <u>46,931</u>	\$ <u>0</u>
Total Primary Government	<u>\$ 260,079</u>	<u>\$ 5,951,627</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)F. Compensated Absences

The Charter Township of Oscoda has a sick pay policy in accordance with various contracts that allow employees to accumulate sick days at the rate of 1 day per month up to a maximum of 90 days for general Township employees and 120 for Police Union employees. Accumulated sick pay is paid only upon separation of employment for retirement, disability or death, at the rate of one-half the accumulated sick leave. The amount of accumulated sick pay liability at December 31, 2004 was \$81,514. The Township also has a vacation pay policy that allows employees to accumulate unused vacation days which are payable upon separation of employment. The amount of accumulated vacation pay liability at December 31, 2004 was \$14,509. These compensated absences are recorded using the vesting method in accordance with Governmental Standards Board Statement 16.

G. Changes in Long Term Liabilities

	<u>Balance</u> <u>January 1, 2004</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>December 31, 2004</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Land contract payable	\$ 43,464	\$ 0	\$ 10,316	\$ 33,148	\$ 11,284
Special assessment bonds payable	210,000	0	30,000	180,000	30,000
Capital lease payable	60,838	0	13,907	46,931	14,741
Accrued employee benefits payable	<u>94,921</u>	<u>0</u>	<u>6,064*</u>	<u>88,857</u>	<u>0</u>
Total primary government	<u>\$ 409,223</u>	<u>\$ 0</u>	<u>\$ 60,287</u>	<u>\$ 348,936</u>	<u>\$ 56,025</u>
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 4,610,416	\$ 0	\$ 293,789	\$ 4,316,627	\$ 288,122
General obligation bonds payable	2,495,000	0	860,000	1,635,000	155,000
Accrued employee benefits payable	<u>6,508</u>	<u>658*</u>	<u>0</u>	<u>7,166</u>	<u>0</u>
Total primary government	<u>\$ 7,111,924</u>	<u>\$ 658</u>	<u>\$ 1,153,789</u>	<u>\$ 5,958,793</u>	<u>\$ 443,122</u>

*Represents net of additions and retirements for the year.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of December 31, 2004 are as follows:

Primary Government**Contracts Payable**

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 288,122	\$ 210,019	\$ 498,141
2006	351,865	195,383	547,248
2007	352,493	177,642	530,135
2008	353,122	159,514	512,636
2009	355,936	141,136	497,072
2010 – 2014	985,227	491,021	1,476,248
2015 – 2019	714,862	307,654	1,022,516
2020 – 2024	<u>915,000</u>	<u>137,105</u>	<u>1,052,105</u>
	<u>\$ 4,316,627</u>	<u>\$ 1,819,474</u>	<u>\$ 6,136,101</u>

General Obligation Bonds

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 155,000	\$ 46,101	\$ 201,101
2006	300,000	64,869	364,869
2007	320,000	50,447	370,447
2008	150,000	39,250	189,250
2009	150,000	31,750	181,750
2010 - 2013	<u>560,000</u>	<u>53,000</u>	<u>613,000</u>
	<u>\$ 1,635,000</u>	<u>\$ 285,417</u>	<u>\$ 1,920,417</u>

Special Assessment Bond Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 30,000	\$ 8,483	\$ 38,483
2006	30,000	6,990	36,990
2007	30,000	5,475	35,475
2008	30,000	3,938	33,938
2009	30,000	2,378	32,378
2010	<u>30,000</u>	<u>795</u>	<u>30,795</u>
	<u>\$ 180,000</u>	<u>\$ 28,059</u>	<u>\$ 208,059</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)Land Contract Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 11,284	\$ 2,525	\$ 13,809
2006	12,342	1,467	13,809
2007	<u>9,522</u>	<u>348</u>	<u>9,870</u>
	<u>\$ 33,148</u>	<u>\$ 4,340</u>	<u>\$ 37,488</u>

Capital Lease Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 14,741	\$ 2,816	\$ 17,557
2006	15,626	1,931	17,557
2007	<u>16,564</u>	<u>993</u>	<u>17,557</u>
	<u>\$ 46,931</u>	<u>\$ 5,740</u>	<u>\$ 52,671</u>

NOTE 9 - OPERATING TRANSFERS

During 2004, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 282,076	\$ 643,745
Police Fund	615,745	0
Property Operation and Maintenance Fund	0	120,500
Major Business-Type Activity Funds:		
Sewage Disposal System Fund	0	10,000
Old Orchard Park Fund	<u>31,113</u>	<u>235,500</u>
Total Major Funds	<u>928,934</u>	<u>1,009,745</u>
Non-major Governmental Funds	320,530	362,144
Non-major Business-Type Activity Funds	<u>122,425</u>	<u>0</u>
Total Non-major Funds	<u>442,955</u>	<u>362,144</u>
	<u>\$ 1,371,889</u>	<u>\$ 1,371,889</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 9 - OPERATING TRANSFERS (CONTINUED)

During 2004, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	\$ 60,000	Property Operation and Maintenance Fund	\$ 60,000
General Fund	29,945	Stabilization Fund	29,945
General Fund	1,631	CDBG Renaissance Fund	1,631
General Fund	190,500	Old Orchard Park Fund	190,500
Police Fund	615,745	General Fund	615,745
Public Improvement Fund	28,000	General Fund	28,000
Public Improvement Fund	10,000	Sewage Disposal System Fund	10,000
Base Closure Fund	60,500	Property Operation and Maintenance Fund	60,500
Office of Economic Adjustment Fund	118,775	Base Closure Fund	118,775
Old Orchard Park Improvement Fund	45,000	Old Orchard Park Fund	45,000
Library Fund	58,255	Base Closure Fund	58,255
Old Orchard Park Fund	31,113	Old Orchard Park Improvement Fund	31,113
Health and Community Center Fund	<u>122,425</u>	Base Closure Fund	<u>122,425</u>
Total	<u>\$ 1,371,889</u>	Total	<u>\$ 1,371,889</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 - RESTRICTED ASSETS AND RESERVES

The Township is required under their \$3,800,000 General Obligation Sewer Disposal System Fund Bond issue to maintain certain restricted assets in the sewer fund. There shall be established and maintained a depository account, to be designated Bond Payment Fund, which shall be used solely for the payment of part of the Township's obligations incurred incident to the issuance of its General Obligation Sewage Disposal Bonds. There shall be deposited in said fund quarterly, after requirements of the Operation and Maintenance Fund have been met, such sums as shall be necessary to pay part of said obligations when due. There is hereby established in the Bond Payment Fund a separate account to be known as the Bond Reserve Account into which there shall be deposited quarterly the sum of at least Three Thousand Seven Hundred Fifty (\$3,750) Dollars during each of the operating years beginning with the year 1975 until the sum of at least One Hundred Eighty Thousand (\$180,000) Dollars has been accumulated. The monies in said account shall be used solely for the payment of the principal and interest on bonds as to which there would otherwise be default. The funds in this account may be used to pay the principal and interest on bonds last maturing. At December 31, 2004, the Township has \$379,888 in a Bond Reserve Account.

There shall next be established and maintained a depository account, designated Replacement Fund, which shall be used solely for the purpose of making major repairs and replacements to the System, if needed. There shall be set aside into said fund, after provision has been made for the Operation and Maintenance Fund and the Contract Payment Fund, such revenue as the Township Board shall deem necessary for this purpose. At December 31, 2004, the Township has \$69,683 in a Sewer Replacement Account.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 10 - RESTRICTED ASSETS AND RESERVES (CONTINUED)

There shall next be established and maintained an Improvement Fund for the purpose of making improvements, extensions and enlargements to the System. There shall be deposited into said fund, after providing for the foregoing fund, such revenue as the Township Board shall determine. This fund has not been established.

Monies remaining in the Receiving Fund at the end of any operating year, after full satisfaction of the requirements of the foregoing funds, may, at the option of the Township Board, be transferred to the Improvement Fund, or used in connection with any other project of the Township reasonably related to purposes of the System. This fund has not been established.

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Township for these budgetary funds was adopted at the activity level.

During the year ended December 31, 2004, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Police Fund:			
Public Safety			
Capital Outlay	\$ 42,000	\$ 83,347	\$ 41,347

NOTE 12 - SEGMENT INFORMATION OF ENTERPRISE FUNDS

The Township maintains four major and two non-major Enterprise Funds. Segment information for the year ended December 31, 2004 is as follows:

	<u>Sewage Disposal System Fund</u>	<u>Water Fund</u>	<u>Housing Fund</u>	<u>Old Orchard Park Fund</u>	<u>Non-major Funds</u>	<u>Total Enterprise Fund</u>
Operating revenue	\$ 595,246	\$ 1,282,877	\$ 115,768	\$ 735,712	\$ 62,370	\$ 2,791,973
Operating expenses	\$ 534,661	\$ 762,113	\$ 19,991	\$ 567,215	\$ 140,756	\$ 2,024,736
Depreciation and amortization	\$ 134,416	\$ 143,931	\$ 0	\$ 27,812	\$ 1,847	\$ 308,006
Operating income (loss)	\$ 60,585	\$ 520,764	\$ 95,777	\$ 168,497	\$ (78,386)	\$ 767,237
Non-operating revenue (expenses)	\$ 422,825	\$ (137,960)	\$ 17,836	\$ 26,508	\$ 555	\$ 329,764
Operating transfers in (out)	\$ (10,000)	\$ 0	\$ 0	\$ (204,387)	\$ 122,425	\$ (91,962)
Change in net assets	\$ 473,410	\$ 382,804	\$ 113,613	\$ (9,382)	\$ 44,594	\$ 1,005,039
Beginning net assets, as restated	\$ 2,218,579	\$ 6,445,128	\$ 1,643,526	\$ 842,961	\$ 107,294	\$ 11,257,488
Ending net assets	\$ 2,691,989	\$ 6,827,932	\$ 1,757,139	\$ 833,579	\$ 151,888	\$ 12,262,527
Property, plant and equipment:						
Additions	\$ 1,666,641	\$ 105,303	\$ 0	\$ 57,050	\$ 89,281	\$ 1,918,275

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 12 - SEGMENT INFORMATION OF ENTERPRISE FUNDS (CONTINUED)

	Sewage Disposal System Fund	Water Fund	Housing Fund	Old Orchard Park Fund	Non-major Funds	Total Enterprise Fund
Net working capital	\$ 1,180,351	\$ 801,848	\$ 1,757,139	\$ 478,195	\$ 64,804	\$ 4,282,337
Current assets	\$ 1,228,215	\$ 1,309,061	\$ 1,763,060	\$ 628,537	\$ 73,200	\$ 5,002,073
Restricted assets	\$ 998,753	\$ 568,462	\$ 0	\$ 0	\$ 0	\$ 1,567,215
Capital assets	\$ 3,894,922	\$ 3,407,460	\$ 0	\$ 362,200	\$ 87,434	\$ 7,752,016
Other noncurrent assets	\$ 47,963	\$ 4,128,667	\$ 0	\$ 0	\$ 0	\$ 4,176,630
Total assets	\$ 6,169,853	\$ 9,413,650	\$ 1,763,060	\$ 990,737	\$ 160,634	\$ 18,497,934
Current liabilities	\$ 47,864	\$ 507,213	\$ 5,921	\$ 150,342	\$ 8,396	\$ 719,736
Noncurrent liabilities	\$ 3,430,000	\$ 2,078,505	\$ 0	\$ 6,816	\$ 350	\$ 5,515,671
Total liabilities	\$ 3,477,864	\$ 2,585,718	\$ 5,921	\$ 157,158	\$ 8,746	\$ 6,235,407
Contracts payable	\$ 2,270,000	\$ 2,046,627	\$ 0	\$ 0	\$ 0	\$ 4,316,627
Bonds payable	\$ 1,160,000	\$ 475,000	\$ 0	\$ 0	\$ 0	\$ 1,635,000
Net assets:						
Investment in capital assets, net of related debt	\$ 464,922	\$ 2,932,460	\$ 0	\$ 362,200	\$ 87,434	\$ 3,847,016
Restricted	\$ 998,753	\$ 568,462	\$ 0	\$ 0	\$ 0	\$ 1,567,215
Unrestricted	\$ 1,228,314	\$ 3,327,010	\$ 1,757,139	\$ 471,379	\$ 64,454	\$ 6,848,296
Total Net Assets	\$ 2,691,989	\$ 6,827,932	\$ 1,757,139	\$ 833,579	\$ 151,888	\$ 12,262,527
Net cash provided (used) by:						
Operating activities	\$ 188,795	\$ 667,679	\$ 101,698	\$ 196,482	\$ (76,498)	\$ 1,078,156
Non-capital financing activities	\$ (35,511)	\$ 25,511	\$ 0	\$ (159,891)	\$ 122,525	\$ (47,366)
Capital and related financing activities	\$ (1,145,334)	\$ (1,266,910)	\$ 0	\$ (57,050)	\$ (89,281)	\$ (2,558,575)
Investing activities	\$ (65,747)	\$ (269,457)	\$ (694,468)	\$ (47,731)	\$ 555	\$ (1,076,848)
Beginning cash and cash equivalents	\$ 2,047,770	\$ 1,369,850	\$ 940,002	\$ 535,896	\$ 115,859	\$ 5,009,377
Ending cash and cash equivalents	\$ 989,973	\$ 526,673	\$ 347,232	\$ 467,706	\$ 73,160	\$ 2,404,744

NOTE 13 - PENSION

The Township has adopted a defined contribution pension plan covering all full-time employees. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are not on leave of absence and have attained age twenty-one.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by the Township vest immediately. The Township is required to contribute an amount equal to 10% of the employee's gross earnings.

During the year, the Township's required and actual contributions amounted to \$52,454, which was 10% of its current-year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 14 - RETIREMENT SYSTEM - MERS OPERATEDPlan Description

The Township's defined benefit pension plan, covering its police union employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Township is required to contribute at an actuarially determined rate. The current rate is 7.79% of annual covered payroll for the Police Chief and 15.17% for all other employees. The contribution requirements of the plan members is 1% of their annual compensation. If a member leaves the employ of the Township, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (plus interest at a rate determined by MERS) will be refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

For 2004, the Township's annual pension cost of \$80,817 was equal to the Township and employee's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 4.16% per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation component. The Township's net pension obligation has been calculated and accrued at December 31, 2004.

The Township has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2003Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$	343,282
Terminated employees not yet receiving benefits		51,779
Current employees -		
Accumulated employee contributions including allocated investment income		438,754
Employer financed		<u>1,257,307</u>
Total Actuarial Accrued Liability		2,091,122
Net assets available for benefits, at actuarial value (Market value is \$1,384,927)		<u>1,516,718</u>
Unfunded Actuarial Accrued Liability	\$	<u><u>574,404</u></u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004NOTE 14 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 51,512	100%	\$ 0
12/31/03	\$ 57,508	100%	\$ 0
12/31/04	\$ 80,817	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$1,279,998	\$1,539,390	\$ 259,392	83%	\$ 433,901	60%
12/31/02	\$1,362,638	\$1,645,351	\$ 282,713	83%	\$ 473,209	60%
12/31/03	\$1,516,718	\$2,091,122	\$ 574,404	73%	\$ 527,360	109%

NOTE 15 - DEFERRED COMPENSATION PLAN

The Township offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Township's financial statements.

NOTE 16 - LEASE COMMITMENTSOld Orchard Park

The Township has entered into a lease agreement with Consumers Energy for the rental of Old Orchard Park Campground and boating access facilities. The lease is for a period of 20 years at an amount not to exceed \$5,000 per year based on expenses lessor has incurred in administering the terms of the lease. In addition, the Township shall pay all taxes, assessments and other public charges levied on the leased premises during each year that the lease is in effect. The Township must also contribute \$45,000 per year to a capital improvement account until a maximum balance of \$200,000 is achieved. Upon termination of this lease, any balance remaining in this capital account becomes the property of Consumers Energy.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2004

NOTE 17 - UNEMPLOYMENT COMPENSATION

The Charter Township of Oscoda has elected, under the Michigan Employment Security Act, to be a reimbursing employer. In making this election, the Township has warranted that it will reimburse the State for all benefits paid by the State to qualified individuals for unemployment compensation.

NOTE 18 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Township is subject to a Single Audit under OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations. The grantors have not yet accepted the Single Audit Reports for the year ended December 31, 2004. However, the Township expects all contingencies related to federal programs, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganSTATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
<u>Taxes</u>				
Current property taxes	\$ 1,061,000	\$ 1,061,000	\$ 1,058,666	\$ (2,334)
Other taxes	15,200	15,200	30,594	15,394
Penalties and interest on delinquent taxes	2,500	2,500	2,520	20
Collection fees	67,500	107,379	88,480	(18,899)
	<u>1,146,200</u>	<u>1,186,079</u>	<u>1,180,260</u>	<u>(5,819)</u>
Federal Grants	<u>129,060</u>	<u>67,000</u>	<u>0</u>	<u>(67,000)</u>
State Revenue Sharing and Grants	<u>1,281,050</u>	<u>604,200</u>	<u>594,723</u>	<u>(9,477)</u>
Private Contributions	<u>5,000</u>	<u>5,000</u>	<u>2,924</u>	<u>(2,076)</u>
<u>Charges for Services</u>				
Fire and cemetery - other units	68,785	68,785	68,788	3
Grave openings	7,000	7,000	8,804	1,804
Administrative - caretaker	35,000	57,000	64,066	7,066
Miscellaneous	41,850	50,500	37,305	(13,195)
	<u>152,635</u>	<u>183,285</u>	<u>178,963</u>	<u>(4,322)</u>
<u>Licenses and Permits</u>				
Licenses	45	45	45	0
Land division fees	400	400	115	(285)
Trailer fees	100	100	43	(57)
Zoning fees	5,500	5,500	5,765	265
	<u>6,045</u>	<u>6,045</u>	<u>5,968</u>	<u>(77)</u>
<u>Interest and Rentals</u>				
Interest earned	22,200	18,200	21,510	3,310
Rents and royalties	76,200	3,200	19,638	16,438
	<u>98,400</u>	<u>21,400</u>	<u>41,148</u>	<u>19,748</u>
Other Revenue	<u>23,200</u>	<u>4,421</u>	<u>11,341</u>	<u>6,920</u>
Total Revenue	<u>2,841,590</u>	<u>2,077,430</u>	<u>2,015,327</u>	<u>(62,103)</u>
<u>Expenditures</u>				
<u>General Government</u>				
Township Board:				
Salaries, wages and fees	14,500	14,500	14,413	87
Payroll taxes and benefits	1,150	1,150	1,103	47
Operating expenditures	1,500	1,500	631	869
Contingency	400	400	0	400
	<u>17,550</u>	<u>17,550</u>	<u>16,147</u>	<u>1,403</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, MichiganSTATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>General Government (Continued)</u>				
Township Supervisor:				
Salaries, wages and fees	\$ 12,880	\$ 12,880	\$ 11,957	\$ 923
Payroll taxes and benefits	1,035	1,035	950	85
Operating expenditures	3,750	3,750	1,128	2,622
Contractual services	125	125	0	125
Contingency	750	750	0	750
	<u>18,540</u>	<u>18,540</u>	<u>14,035</u>	<u>4,505</u>
Superintendent:				
Salaries, wages and fees	86,125	86,125	85,957	168
Payroll taxes and benefits	36,950	38,950	38,570	380
Operating expenditures	8,875	8,875	4,024	4,851
Contractual services	200	200	0	200
Contingency	250	250	0	250
	<u>132,400</u>	<u>134,400</u>	<u>128,551</u>	<u>5,849</u>
Elections:				
Salaries, wages and fees	8,750	11,500	9,620	1,880
Payroll taxes and benefits	275	875	235	640
Operating expenditures	37,950	9,450	3,965	5,485
Contractual services	650	650	254	396
Contingency	500	500	0	500
	<u>48,125</u>	<u>22,975</u>	<u>14,074</u>	<u>8,901</u>
Assessor:				
Operating expenditures	10,975	10,975	7,087	3,888
Contractual services	159,900	149,900	143,271	6,629
Contingency	350	350	0	350
	<u>171,225</u>	<u>161,225</u>	<u>150,358</u>	<u>10,867</u>
Board of Review:				
Salaries, wages and fees	2,450	2,450	1,724	726
Payroll taxes and benefits	240	240	150	90
Operating expenditures	300	300	170	130
Contingency	100	100	0	100
	<u>3,090</u>	<u>3,090</u>	<u>2,044</u>	<u>1,046</u>
Township Clerk:				
Salaries, wages and fees	78,045	79,670	80,100	(430)
Payroll taxes and benefits	24,300	26,000	23,853	2,147
Operating expenditures	6,225	6,225	3,524	2,701
Contractual services	2,500	2,500	2,974	(474)
Contingency	500	500	0	500
	<u>111,570</u>	<u>114,895</u>	<u>110,451</u>	<u>4,444</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>General Government (Continued)</u>				
Township Treasurer:				
Salaries, wages and fees	\$ 80,325	\$ 86,500	\$ 84,301	\$ 2,199
Payroll taxes and benefits	34,750	31,200	29,055	2,145
Operating expenditures	16,550	21,400	20,623	777
Contractual services	1,250	4,000	3,267	733
Contingency	500	0	0	0
	<u>133,375</u>	<u>143,100</u>	<u>137,246</u>	<u>5,854</u>
Township Cemetery:				
Salaries, wages and fees	38,155	38,155	37,935	220
Payroll taxes and benefits	1,300	2,300	1,621	679
Operating expenditures	19,500	18,500	11,599	6,901
Contingency	750	750	0	750
	<u>59,705</u>	<u>59,705</u>	<u>51,155</u>	<u>8,550</u>
Buildings and Grounds				
Salaries, wages and fees	47,380	47,380	39,170	8,210
Payroll taxes and benefits	20,725	23,725	22,114	1,611
Operating expenditures	102,513	105,113	97,903	7,210
Contractual services	750	750	750	0
Contingency	5,000	0	0	0
	<u>176,368</u>	<u>176,968</u>	<u>159,937</u>	<u>17,031</u>
Sanitary Landfill (Dump)				
Contracted services	<u>5,700</u>	<u>5,700</u>	<u>4,138</u>	<u>1,562</u>
Other Costs Not Allocated:				
Payroll taxes and benefits	1,250	1,250	0	1,250
Operating expenditures	65,300	62,800	47,779	15,021
Contractual services	130,550	57,700	44,277	13,423
Community promotion and dues	24,100	24,100	15,803	8,297
State reverted lands	800	800	0	800
Building Authority special assessments	1,000	1,000	0	1,000
Contingency	0	0	437	(437)
	<u>223,000</u>	<u>147,650</u>	<u>108,296</u>	<u>39,354</u>
Total General Government	<u>1,100,648</u>	<u>1,005,798</u>	<u>896,432</u>	<u>109,366</u>
<u>Public Safety</u>				
Fire Department:				
Salaries, wages and fees	93,940	92,715	80,939	11,776
Payroll taxes and benefits	10,600	11,450	9,348	2,102
Operating expenditures	94,200	105,650	91,025	14,625
Contractual services	300	1,200	965	235
Fundraising	0	1,000	866	134
Contingency	2,000	0	0	0
Total Public Safety	<u>201,040</u>	<u>212,015</u>	<u>183,143</u>	<u>28,872</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Expenditures (Continued)</u>				
<u>Public Works</u>				
Highways and Streets:				
Roads, maintenance and equipment	\$ 45,000	\$ 45,000	\$ 45,270	\$ (270)
Street Lighting:				
Public utilities	83,875	83,875	80,798	3,077
Total Public Works	128,875	128,875	126,068	2,807
<u>Community and Economic Development</u>				
Planning Commission (Zoning):				
Salaries, wages and fees	33,020	33,020	32,321	699
Payroll taxes and benefits	16,075	16,075	14,502	1,573
Operating expenditures	7,450	7,450	2,542	4,908
Contractual services	17,000	19,500	17,541	1,959
Contingency	1,000	1,000	0	1,000
Total Community and Economic Development	74,545	77,045	66,906	10,139
<u>Recreation and Cultural</u>				
Salaries, wages and fees	79,650	69,200	61,304	7,896
Payroll taxes and benefits	43,720	43,720	37,171	6,549
Operating expenditures	67,075	70,425	54,296	16,129
Contractual services	2,200	4,500	4,233	267
Contingency	1,000	500	0	500
Total Recreation and Cultural	193,645	188,345	157,004	31,341
<u>Capital Outlay</u>				
General government	0	310,000	297,050	12,950
Public safety	143,400	73,700	0	73,700
Community and economic development	2,287	3,087	3,000	87
Recreation and cultural	860,250	31,000	24,939	6,061
Total Capital Outlay	1,005,937	417,787	324,989	92,798
Total Expenditures	2,708,940	2,029,865	1,754,542	275,323
Excess of revenue over (under) expenditures	132,650	47,565	260,785	213,220
<u>Other Financing Sources (Uses)</u>				
Sale of capital assets	2,500	1,000	0	(1,000)
Operating transfers in	280,445	280,445	282,076	1,631
Operating transfers out	(643,745)	(643,745)	(643,745)	0
Total other financing sources (uses)	(360,800)	(362,300)	(361,669)	631
Excess of revenue and other sources over expenditures and other uses	(228,150)	(314,735)	(100,884)	213,851
Fund balances - beginning of year	1,431,809	1,431,809	1,431,809	0
Fund balances - end of year	\$ 1,203,659	\$ 1,117,074	\$ 1,330,925	\$ 213,851

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 POLICE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants	\$ 0	\$ 2,000	\$ 2,022	\$ 22
State grants and revenue	9,800	9,800	10,454	654
Private contributions	0	0	500	500
Charges for services	219,352	231,852	254,511	22,659
Licenses and permits	0	0	0	0
Interest and rentals	1,750	1,750	2,348	598
Fines and forfeits	1,500	1,500	2,125	625
Other revenue	1,000	16,300	17,214	914
Total revenue	<u>233,402</u>	<u>263,202</u>	<u>289,174</u>	<u>25,972</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Police department:				
Salaries, wages and fees	550,650	550,650	533,135	17,515
Payroll taxes and benefits	249,370	242,620	229,110	13,510
Operating expenses	114,725	125,275	100,296	24,979
Contracted services	28,900	15,900	7,575	8,325
Capital outlay	48,000	42,000	83,347	(41,347)
Total expenditures	<u>991,645</u>	<u>976,445</u>	<u>953,463</u>	<u>22,982</u>
Excess of revenue over (under) expenditures	<u>(758,243)</u>	<u>(713,243)</u>	<u>(664,289)</u>	<u>48,954</u>
Other Financing Sources:				
Sale of capital assets	0	1,500	1,550	50
Operating transfers in	615,743	615,743	615,745	2
Total other financing sources	<u>615,743</u>	<u>617,243</u>	<u>617,295</u>	<u>52</u>
Excess of revenue and other sources over (under) expenditures	(142,500)	(96,000)	(46,994)	49,006
Fund balances - beginning of year	<u>318,933</u>	<u>318,933</u>	<u>318,933</u>	<u>0</u>
Fund balances - end of year	<u>\$ 176,433</u>	<u>\$ 222,933</u>	<u>\$ 271,939</u>	<u>\$ 49,006</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 PROPERTY OPERATION AND MAINTENANCE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for services	\$ 128,790	\$ 99,750	\$ 110,233	\$ 10,483
Interest and rentals	<u>152,120</u>	<u>288,855</u>	<u>299,644</u>	<u>10,789</u>
Total revenue	<u>280,910</u>	<u>388,605</u>	<u>409,877</u>	<u>21,272</u>
<u>Expenditures</u>				
<u>Community and Economic Development</u>				
Salaries, wages and fees	96,640	93,300	77,697	15,603
Payroll taxes and benefits	46,225	35,975	29,220	6,755
Operating expenses	172,300	177,100	157,530	19,570
Contracted services	57,500	41,850	25,842	16,008
Capital outlay	<u>8,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>380,665</u>	<u>348,225</u>	<u>290,289</u>	<u>57,936</u>
Excess of revenue over (under) expenditures	<u>(99,755)</u>	<u>40,380</u>	<u>119,588</u>	<u>79,208</u>
Other Financing Sources (Uses):				
Sale of capital assets	159,755	220,000	220,232	232
Operating transfers out	<u>(60,000)</u>	<u>(260,380)</u>	<u>(120,500)</u>	<u>139,880</u>
Total other financing sources (uses)	<u>99,755</u>	<u>(40,380)</u>	<u>99,732</u>	<u>140,112</u>
Excess of revenue and other sources over expenditures and other uses	0	0	219,320	219,320
Fund balances - beginning of year	<u>841,802</u>	<u>841,802</u>	<u>841,802</u>	<u>0</u>
Fund balances - end of year	<u>\$ 841,802</u>	<u>\$ 841,802</u>	<u>\$ 1,061,122</u>	<u>\$ 219,320</u>

OTHER INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
December 31, 2004

	Forest Reserve Fund	Public Improvement Fund	Base Closure Fund	CDBG Renaissance Fund	Office of Economic Adjustment Fund	Old Orchard Park Improvement Fund	Stabilization Fund	Lakefront District Improvement Fund	Library Fund	Streetscape Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>											
Cash and cash equivalents	\$ 16,171	\$ 86,981	\$ 82,517	\$ 0	\$ 9,633	\$ 2,811	\$ 4,383	\$ 38,672	\$ 73,559	\$ 43,094	\$ 357,821
Investments	3,595	107,939	0	0	81,846	0	222,933	0	14,214	0	430,527
Receivables:											
Special assessments	0	0	0	0	0	0	0	0	0	22,100	22,100
Due from other funds	0	0	0	0	0	44,596	0	0	0	7,923	52,519
Restricted assets:											
Cash and cash equivalents	0	52,731	29,079	0	0	0	0	0	0	0	81,810
Investments	0	132,237	777,219	0	0	0	0	0	0	0	909,456
Total Assets	<u>\$ 19,766</u>	<u>\$ 379,888</u>	<u>\$ 888,815</u>	<u>\$ 0</u>	<u>\$ 91,479</u>	<u>\$ 47,407</u>	<u>\$ 227,316</u>	<u>\$ 38,672</u>	<u>\$ 87,773</u>	<u>\$ 73,117</u>	<u>\$ 1,854,233</u>
<u>LIABILITIES AND FUND EQUITY</u>											
<u>Liabilities</u>											
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 829	\$ 0	\$ 0	\$ 0	\$ 1,451	\$ 0	\$ 2,280
Due to state	0	0	0	0	104	0	0	0	139	0	243
Deferred revenue	0	0	0	0	0	0	0	0	0	61,600	61,600
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>933</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,590</u>	<u>61,600</u>	<u>64,123</u>
<u>Fund Equity</u>											
Fund balances:											
Reserved for:											
Cemetery	0	184,968	0	0	0	0	0	0	0	0	184,968
Future developments	0	0	806,298	0	0	0	0	0	0	0	806,298
Debt service	0	0	0	0	0	0	0	0	0	11,517	11,517
Unreserved, reported in:											
Special revenue funds	19,766	194,920	82,517	0	90,546	47,407	227,316	38,672	86,183	0	787,327
Total fund equity	<u>19,766</u>	<u>379,888</u>	<u>888,815</u>	<u>0</u>	<u>90,546</u>	<u>47,407</u>	<u>227,316</u>	<u>38,672</u>	<u>86,183</u>	<u>11,517</u>	<u>1,790,110</u>
Total Liabilities and Fund Equity	<u>\$ 19,766</u>	<u>\$ 379,888</u>	<u>\$ 888,815</u>	<u>\$ 0</u>	<u>\$ 91,479</u>	<u>\$ 47,407</u>	<u>\$ 227,316</u>	<u>\$ 38,672</u>	<u>\$ 87,773</u>	<u>\$ 73,117</u>	<u>\$ 1,854,233</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

	Forest Reserve Fund	Public Improvement Fund	Base Closure Fund	CDBG Renaissance Fund	Office of Economic Adjustment Fund	Old Orchard Park Improvement Fund	Stabilization Fund	Lakefront District Improvement Fund	Library Fund	Streetscape Debt Service Fund	Total Other Governmental Funds
<u>Revenue</u>											
Special assessments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 26,931	\$ 26,931
Federal grants	3,181	0	0	1,631	0	0	0	0	0	0	4,812
Contributions from local units	0	0	0	0	0	0	0	0	19,522	0	19,522
Private contributions	0	0	0	0	0	0	0	0	2,905	0	2,905
Charges for services	0	4,399	0	0	0	0	0	0	0	0	4,399
Interest and rentals	161	3,995	12,520	0	1,118	179	2,913	6,622	640	10,816	38,964
Other revenue	0	0	0	0	5,373	0	0	0	397	0	5,770
Total revenue	<u>3,342</u>	<u>8,394</u>	<u>12,520</u>	<u>1,631</u>	<u>6,491</u>	<u>179</u>	<u>2,913</u>	<u>6,622</u>	<u>23,464</u>	<u>37,747</u>	<u>103,303</u>
<u>Expenditures</u>											
Current:											
General government	0	150	0	0	0	0	0	0	0	0	150
Public works	11,167	0	0	0	0	0	0	0	0	0	11,167
Community and economic development	0	0	1,068	0	132,396	0	0	11,582	0	0	145,046
Recreation and cultural	0	0	0	0	0	405	0	0	86,759	0	87,164
Other	0	0	0	0	0	0	0	0	0	17	17
Capital outlay	0	50,506	0	0	0	0	0	0	0	0	50,506
Debt service:											
Principal	0	13,907	0	0	0	0	0	10,316	0	30,000	54,223
Interest and fiscal charges	0	3,650	0	0	0	0	0	3,493	0	10,235	17,378
Total expenditures	<u>11,167</u>	<u>68,213</u>	<u>1,068</u>	<u>0</u>	<u>132,396</u>	<u>405</u>	<u>0</u>	<u>25,391</u>	<u>86,759</u>	<u>40,252</u>	<u>365,651</u>
Excess of revenue over (under) expenditures	<u>(7,825)</u>	<u>(59,819)</u>	<u>11,452</u>	<u>1,631</u>	<u>(125,905)</u>	<u>(226)</u>	<u>2,913</u>	<u>(18,769)</u>	<u>(63,295)</u>	<u>(2,505)</u>	<u>(262,348)</u>
Other Financing Sources (Uses):											
Operating transfers in	0	38,000	60,500	0	118,775	45,000	0	0	58,255	0	320,530
Operating transfers out	0	0	(299,455)	(1,631)	0	(31,113)	(29,945)	0	0	0	(362,144)
Total other financing sources (uses)	<u>0</u>	<u>38,000</u>	<u>(238,955)</u>	<u>(1,631)</u>	<u>118,775</u>	<u>13,887</u>	<u>(29,945)</u>	<u>0</u>	<u>58,255</u>	<u>0</u>	<u>(41,614)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(7,825)</u>	<u>(21,819)</u>	<u>(227,503)</u>	<u>0</u>	<u>(7,130)</u>	<u>13,661</u>	<u>(27,032)</u>	<u>(18,769)</u>	<u>(5,040)</u>	<u>(2,505)</u>	<u>(303,962)</u>
Fund balances - beginning of year	<u>27,591</u>	<u>401,707</u>	<u>1,116,318</u>	<u>0</u>	<u>97,676</u>	<u>33,746</u>	<u>254,348</u>	<u>57,441</u>	<u>91,223</u>	<u>14,022</u>	<u>2,094,072</u>
Fund balances - end of year	<u>\$ 19,766</u>	<u>\$ 379,888</u>	<u>\$ 888,815</u>	<u>\$ 0</u>	<u>\$ 90,546</u>	<u>\$ 47,407</u>	<u>\$ 227,316</u>	<u>\$ 38,672</u>	<u>\$ 86,183</u>	<u>\$ 11,517</u>	<u>\$ 1,790,110</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF NET ASSETS
 OTHER PROPRIETARY FUNDS
December 31, 2004

	Enterprise Funds		
	Health and Community Center Fund	Exposition Center Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 58,219	\$ 14,941	\$ 73,160
Receivables:			
Accounts, net	40	0	40
Total current assets	<u>58,259</u>	<u>14,941</u>	<u>73,200</u>
Noncurrent assets:			
Capital assets, net	<u>87,434</u>	<u>0</u>	<u>87,434</u>
Total Assets	<u>145,693</u>	<u>14,941</u>	<u>160,634</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	6,099	0	6,099
Due to state	2,197	0	2,197
Due to other funds	100	0	100
Total current liabilities	<u>8,396</u>	<u>0</u>	<u>8,396</u>
Noncurrent liabilities:			
Accrued compensated absences payable	<u>350</u>	<u>0</u>	<u>350</u>
Total Liabilities	<u>8,746</u>	<u>0</u>	<u>8,746</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	87,434	0	87,434
Unrestricted	<u>49,513</u>	<u>14,941</u>	<u>64,454</u>
Total Net Assets	<u>\$ 136,947</u>	<u>\$ 14,941</u>	<u>\$ 151,888</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 OTHER PROPRIETARY FUNDS
For the Year Ended December 31, 2004

	Enterprise Funds		
	Health and Community Center Fund	Exposition Center Fund	Total
Operating Revenue:			
Charges for services	\$ 39,489	\$ 4,989	\$ 44,478
User fees	9,473	0	9,473
Rents	8,255	0	8,255
Other	164	0	164
Total operating revenue	<u>57,381</u>	<u>4,989</u>	<u>62,370</u>
Operating Expenses:			
Salaries and wages	42,139	0	42,139
Payroll taxes and fringe benefits	5,949	0	5,949
Office and operating supplies	16,114	0	16,114
Communications	1,471	0	1,471
Professional fees and services	7,266	235	7,501
Travel and training	627	0	627
Insurance and bonds	4,590	6,246	10,836
Repair and maintenance	19,033	0	19,033
Utilities	35,233	0	35,233
Depreciation and amortization	1,847	0	1,847
Other	6	0	6
Total operating expenses	<u>134,275</u>	<u>6,481</u>	<u>140,756</u>
Operating loss	(76,894)	(1,492)	(78,386)
Non-operating Revenue:			
Interest earned on investments	<u>467</u>	<u>88</u>	<u>555</u>
Loss before operating transfers	(76,427)	(1,404)	(77,831)
Other Financing Sources:			
Operating transfers in	<u>122,425</u>	<u>0</u>	<u>122,425</u>
Change in net assets	45,998	(1,404)	44,594
Net assets - beginning of year, as restated (Note 2)	<u>90,949</u>	<u>16,345</u>	<u>107,294</u>
Net assets - end of year	<u>\$ 136,947</u>	<u>\$ 14,941</u>	<u>\$ 151,888</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF CASH FLOWS
 OTHER PROPRIETARY FUNDS
For the Year Ended December 31, 2004

	<u>Enterprise Funds</u>		
	<u>Health and Community Center Fund</u>	<u>Exposition Center Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash received from customers	\$ 57,361	\$ 4,989	\$ 62,350
Cash payments to suppliers and employees	<u>(131,460)</u>	<u>(7,388)</u>	<u>(138,848)</u>
Net cash used by operating activities	(74,099)	(2,399)	(76,498)
Cash Flows From Non-Capital Financing Activities:			
Cash received from other funds	122,525	0	122,525
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(89,281)	0	(89,281)
Cash Flows From Investing Activities:			
Interest on investments	<u>467</u>	<u>88</u>	<u>555</u>
Net decrease in cash and cash equivalents	(40,388)	(2,311)	(42,699)
Cash and cash equivalents at beginning of year	<u>98,607</u>	<u>17,252</u>	<u>115,859</u>
Cash and cash equivalents at end of year	<u>\$ 58,219</u>	<u>\$ 14,941</u>	<u>\$ 73,160</u>
<u>Reconciliation of operating loss to net cash used by operating activities</u>			
Operating loss	\$ (76,894)	\$ (1,492)	\$ (78,386)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	1,847	0	1,847
Change in assets and liabilities:			
Accounts receivable, net	(20)	0	(20)
Accounts and other payables	(530)	(907)	(1,437)
Due to state	1,375	0	1,375
Accrued compensated absences	<u>123</u>	<u>0</u>	<u>123</u>
Net cash used by operating activities	<u>\$ (74,099)</u>	<u>\$ (2,399)</u>	<u>\$ (76,498)</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SEWAGE DISPOSAL SYSTEM FUND
 STATEMENT OF NET ASSETS
December 31, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 379,665
Investments	459,495
Receivables:	
Accounts, net	67,519
Due from federal	296,025
Due from other funds	25,511
Total current assets	<u>1,228,215</u>

Restricted assets:

Cash and cash equivalents	65,955
Cash held in escrow	544,353
Investments	<u>388,445</u>
Total restricted assets	<u>998,753</u>

Noncurrent assets:

Contract issuance costs, net	21,390
Contract discount, net	26,573
Capital assets, net	<u>3,894,922</u>
Total noncurrent assets	<u>3,942,885</u>

Total Assets	<u>6,169,853</u>
--------------	------------------

Liabilities

Current liabilities:

Accounts payable	10,564
Accounts payable - contracts	20,575
Accrued interest	16,703
Due to state	<u>22</u>
Total current liabilities	<u>47,864</u>

Noncurrent liabilities:

Bonds payable	1,160,000
Contracts payable	<u>2,270,000</u>
Total noncurrent liabilities	<u>3,430,000</u>

Total Liabilities	<u>3,477,864</u>
-------------------	------------------

Net Assets

Investment in capital assets, net of related debt	464,922
Restricted for:	
Improvements	614,036
Debt service	384,717
Unrestricted	<u>1,228,314</u>

Total Net Assets	<u>\$ 2,691,989</u>
------------------	---------------------

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SEWAGE DISPOSAL SYSTEM FUND
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2004

Operating Revenue:	
Charges for services	\$ 580,891
Penalties	8,683
Tap fees	5,500
Other	<u>172</u>
Total operating revenue	<u>595,246</u>
Operating Expenses:	
Salaries and wages	8,830
Payroll taxes and fringe benefits	776
Office and operating supplies	13,963
Communications	161
Professional fees and services	270,228
Gasoline and oil	363
Insurance and bonds	8,187
Repair and maintenance	5,823
Rent	880
Utilities	89,979
Depreciation and amortization	134,416
Other	<u>1,055</u>
Total operating expenses	<u>534,661</u>
Operating income	<u>60,585</u>
Non-operating Revenue (Expenses):	
Federal revenue	573,293
Interest earned on investments	26,632
Interest expense and paying agent fees	<u>(177,100)</u>
Total nonoperating revenue (expenses)	<u>422,825</u>
Income before operating transfers	483,410
Other Financing Uses:	
Operating transfers out	<u>(10,000)</u>
Change in net assets	473,410
Net assets - beginning of year, as restated (Note 2)	<u>2,218,579</u>
Net assets - end of year	<u>\$ 2,691,989</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SEWAGE DISPOSAL SYSTEM FUND
 STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

Cash Flows From Operating Activities:

Cash received from customers	\$ 600,938
Cash payments to suppliers and employees	<u>(412,143)</u>
Net cash provided by operating activities	<u>188,795</u>

Cash Flows From Non-Capital Financing Activities:

Cash paid to other funds	<u>(35,511)</u>
--------------------------	-----------------

Cash Flows From Capital and Related Financing Activities:

Federal grants received	853,975
Acquisition and construction of capital assets	(1,666,641)
Principal paid on long-term debt	(150,000)
Interest paid on long-term debt	<u>(182,668)</u>
Net cash used by capital and related financing activities	<u>(1,145,334)</u>

Cash Flows From Investing Activities:

Interest on investments	26,632
Purchase of investment securities	<u>(92,379)</u>
Net cash used by investing activities	<u>(65,747)</u>

Net decrease in cash and cash equivalents (1,057,797)

Cash and cash equivalents at beginning of year 2,047,770

Cash and cash equivalents at end of year \$ 989,973

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 60,585
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	134,416
Change in assets and liabilities:	
Accounts receivable, net	(6,391)
Due from local units	12,083
Accounts and other payables	(11,899)
Due to state	<u>1</u>

Net cash provided by operating activities \$ 188,795

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

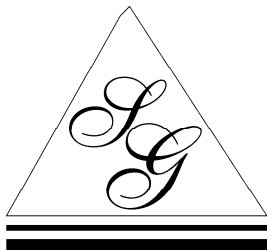
SEWAGE DISPOSAL SYSTEM FUND
 SUPPLEMENTAL INFORMATION FOR GMAC COMMERCIAL MORTGAGE
For the Year Ended December 31, 2004

1. Our audit was made in accordance with auditing standards generally accepted in the United States of America.
2. A separate report on internal control can be found after this report.
3. The accounting records maintained by the Township for the Sewage Disposal System Fund are satisfactory and we have no major recommendations for improvement.
4. The Township's physical control of the assets is satisfactory.
5. The Charter Township of Oscoda has complied with the loan agreement, including the maintenance of cash reserves.
6. The financial reports included in this audit are in agreement with the accounting records of the Township and no major or unusual adjustments were necessary.
7. Deposit funds of the Sewage Disposal System Fund are in financial institutions insured by the Federal government.
8. The Charter Township of Oscoda is exempt from Federal income tax.
9. No unsatisfactory conditions were noted during the audit.
10. An aging of accounts receivable as of December 31, 2004 is as follows:

<u>Days</u>	<u>Amount</u>
0 - 30	\$ 42,775
31 - 60	8,074
61 - 90	4,756
Over 90	5,272
Delinquent bills on tax roll	6,642
Total	<u>\$ 67,519</u>

11. The types and amounts of insurance coverage pertaining to the Sewage Disposal System Fund as of December 31, 2004 are as follows:

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration Date</u>
Property	KMPKG0051301	\$ 12,082,091	01/01/2006
Liability	KMPKG0051301	\$ 3,000,000	01/01/2006
Auto	KMPKG0051301	\$ 3,000,000	01/01/2006
Inland Marine	KMPKG0051301	\$ 702,000	01/01/2006
Papers and Records	KMPKG0051301	\$ 250,000	01/01/2006
Errors/Omissions	KMPKG0051301	\$ 3,000,000	01/01/2006
Flood	KMPKG0051301	\$ 1,000,000	01/01/2006
Boiler/Machinery	BAJ-BM21-379X6494	\$ 1,000,000	01/01/2006
Crime	KMPKG0051301	\$ 50,000	01/01/2006
Law Enforcement	KMPKG0051301	\$ 3,000,000	01/01/2006
Earth Movement	KMPKG0051301	\$ 1,000,000	01/01/2006
Electronic Data Equipment	KMPKG0051301	\$ 250,000	01/01/2006
Employees Blanket Bond	KMPKG0051301	\$ 50,000	01/01/2006
Workers Compensation	5551580-04	\$ 500,000	06/30/2005



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 21, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated February 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Charter Township of Oscoda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the Charter Township of Oscoda in a separate letter dated February 21, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Charter Township of Oscoda's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

Internal Controls over Common Cash

At the time of audit fieldwork, the common cash bank account had not been completely reconciled since August 2004. The bank accounts must be reconciled monthly, and any adjustments posted to the general ledger as needed.

Internal Controls and Accounting Procedures

Historically, the work of the bookkeeper has not been directly checked by an other individual. The bookkeeper, who had been in that position for many years, retired in 2004 and a new bookkeeper was hired. We recommend the following procedures be implemented to maintain strong internal controls. The bank reconciliations should be reviewed by the Treasurer to ensure the reconciliation is reasonable and accurate, and the Treasurer should sign her approval upon them. In addition, we recommend the Treasurer compare the monthly financial reports to supporting information to ensure monthly bookkeeping entries and reconciliations are completed accurately and timely, before they are presented to the Board for their review.

- 64 -

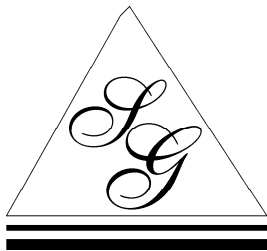
Internal Controls over Cash Receipting

New auditing standards covering fraud in governmental units were implemented in the year ended December 31, 2003. Based upon this standard, our testing over the cash receipting process was significantly increased. As a result of this testing, we recommend the following changes to the off-site cash receipting process. The Community Center remits receipts to the Treasurer's office weekly. The transmittal for the week includes the total cash and checks received. However, when the receipt is entered into the cash receipting system by the Treasurer's office, the breakdown of cash and checks is not included. Rather, the entire deposit is posted entirely to cash or to checks. We recommend the breakdown be entered into the cash receipting system exactly as it is received from the Community Center. This will ensure a proper paper trail is documented.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Charter Township of Oscoda in a separate letter dated February 21, 2005.

This report is intended solely for the information and use of management, the Township Board, Federal Awarding Agencies and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 21, 2005

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Charter Township of Oscoda for the year ended December 31, 2004, and have issued our report thereon dated February 21, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 27, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Charter Township of Oscoda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. We also audited the compliance of the Charter Township of Oscoda, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Charter Township of Oscoda's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Charter Township of Oscoda's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Oscoda are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Township changed accounting policies as a result of adopting Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended December 31, 2004. We noted no transactions entered into by the Charter Township of Oscoda during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Charter Township of Oscoda's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Charter Township of Oscoda, either individually or in the aggregate, indicate matters that could have a significant effect on the Charter Township of Oscoda's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Township of Oscoda's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

In planning and performing our audit of the financial statements of the Charter Township of Oscoda for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls, we offer the following recommendations for consideration.

Budget Control

We noted that the Township's Police Fund included expenditures in capital outlay that exceeded appropriated amounts. We recommend that the Township Board continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

Internal Controls Over Common Cash

At the time of audit fieldwork, the common cash bank account had not been completely reconciled since August 2004. The bank accounts must be reconciled monthly, and any adjustments posted to the general ledger as needed.

Internal Controls and Accounting Procedures

Historically, the work of the bookkeeper has not been directly checked by an other individual. The bookkeeper, who had been in that position for many years, retired in 2004 and a new bookkeeper was hired. We recommend the following procedures be implemented to maintain strong internal controls. The bank reconciliations should be reviewed by the Treasurer to ensure the reconciliation is reasonable and accurate, and the Treasurer should sign her approval upon them. In addition, we recommend the Treasurer compare the monthly financial reports to supporting information to ensure monthly bookkeeping entries and reconciliations are completed accurately and timely, before they are presented to the Board for their review.

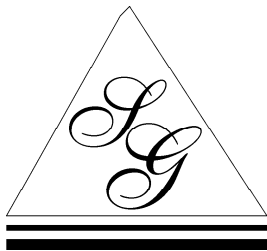
Internal Controls Over Cash Receipting

New auditing standards covering fraud in governmental units were implemented in the year ended December 31, 2003. Based upon this standard, our testing over the cash receipting process was significantly increased. As a result of this testing, we recommend the following changes to the off-site cash receipting process. The Community Center remits receipts to the Treasurer's office weekly. The transmittal for the week includes the total cash and checks received. However, when the receipt is entered into the cash receipting system by the Treasurer's office, the breakdown of cash and checks is not included. Rather, the entire deposit is posted entirely to cash or to checks. We recommend the breakdown be entered into the cash receipting system exactly as it is received from the Community Center. This will ensure a proper paper trail is documented.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, the Township Board, Federal Awarding Agencies and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

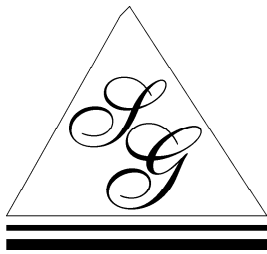
Herman A Bertuleit, CPA

CHARTER TOWNSHIP OF OSCODA
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED DECEMBER 31, 2004

I_N_D_E_X

	<u>PAGE</u>
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1 - 2
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3 - 4
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6 - 7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	8 - 9



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 21, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated February 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Charter Township of Oscoda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

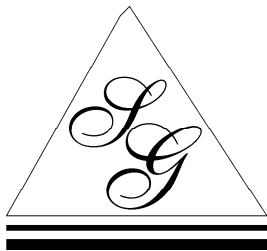
In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Charter Township of Oscoda's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questions costs as items 04-1 through 04-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Charter Township of Oscoda in a separate letter dated February 21, 2005.

Members of the Township Board
Charter Township of Oscoda
February 21, 2005
Page Two

This report is intended solely for the information and use of management, the Township Board, Federal Awarding Agencies and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

February 21, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

Compliance

We have audited the compliance of the Charter Township of Oscoda with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The Charter Township of Oscoda's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Charter Township of Oscoda's management. Our responsibility is to express an opinion on the Charter Township of Oscoda's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter Township of Oscoda's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Charter Township of Oscoda's compliance with those requirements.

In our opinion, the Charter Township of Oscoda complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Charter Township of Oscoda is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Charter Township of Oscoda's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Oscoda, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 21, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Oscoda's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Township Board, management, Michigan Department of Treasury and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2004

Findings - Financial Statements Audit

There were no findings related to the general purpose financial statements audit for the year ending December 31, 2003.

Findings and Questioned Costs - Major Federal Award Programs Audit

03-1 Davis-Bacon Compliance
CFDA #11.307 – Wastewater Treatment Plant Project

While reviewing the contractor and subcontractor wage rates for Davis-Bacon compliance, we noted two instances in which the employees were paid less than the Davis-Bacon hourly rate. One instance involved a carpenter paid at the hourly rate of \$23.24 while the Davis-Bacon minimum hourly rate was \$23.91. The individual was paid a total of 146 hours at the lower rate for the pay periods of October 5 through December 20, 2003. The second instance involved several employees of one construction company that were classified as laborers. They were paid at the hourly rate of \$16.06 while the Davis-Bacon minimum hourly rate was \$16.81. The employees were paid a total of 644 hours at the lower rate for the pay periods of October 12 through December 13, 2003.

In the year ended December 31, 2004, the contractor requested a redetermination of the wage rates for this project. The U.S. Department of Labor was contacted, and they determined the wage scales originally determined for this project were incorrect. The proper wage scales were obtained from the U.S. Department of Labor, and the contractors were found to be in compliance with the revised wage scales. Therefore, this finding has been resolved.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2004

Summary of Auditors' Results

- (1) The auditors' report expresses an unqualified opinion on the financial statements of the Charter Township of Oscoda.
- (2) Three reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of the Charter Township of Oscoda, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No reportable conditions relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award program for the Charter Township of Oscoda expresses an unqualified opinion.
- (6) The auditors' report disclosed no findings relative to the major federal award program for the Charter Township of Oscoda.
- (7) The program tested as a major program includes: Economic Development and Adjustment Assistance
Program CFDA #11.307
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) The Charter Township of Oscoda did not qualify as a low-risk auditee.

Findings – Financial Statements Audit

04-1 Internal Controls over Common Cash

At the time of audit fieldwork, the common cash bank account had not been completely reconciled since August 2004. The bank accounts must be reconciled monthly, and any adjustments posted to the general ledger as needed.

Management Response:

As noted in the finding directly below, a significant personnel change occurred in Fiscal Year 2004 in the Treasurer's Office. The lack of continuity caused some transition challenges, including the finding cited here. This issue has been addressed with all bank accounts being reconciled monthly and necessary adjustments being implemented.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2004

Findings - Financial Statements Audit (Continued)

04-2 Internal Controls and Accounting Procedures

Historically, the work of the bookkeeper has not been directly checked by an other individual. The bookkeeper, who had been in that position for many years, retired in 2004 and a new bookkeeper was hired. We recommend the following procedures be implemented to maintain strong internal controls. The bank reconciliations should be reviewed by the Treasurer to ensure the reconciliation is reasonable and accurate, and the Treasurer should sign her approval upon them. In addition, we recommend the Treasurer compare the monthly financial reports to supporting information to ensure monthly bookkeeping entries and reconciliations are completed accurately and timely, before they are presented to the Board for their review.

Management Response:

In recognition of the personnel changes the Treasurer is reviewing reconciliations and related supporting information to ensure accuracy.

04-3 Internal Controls over Cash Receipting

New auditing standards covering fraud in governmental units were implemented in the year ended December 31, 2003. Based upon this standard, our testing over the cash receipting process was significantly increased. As a result of this testing, we recommend the following changes to the off-site cash receipting process. The Community Center remits receipts to the Treasurer's office weekly. The transmittal for the week includes the total cash and checks received. However, when the receipt is entered into the cash receipting system by the Treasurer's office, the breakdown of cash and checks is not included. Rather, the entire deposit is posted entirely to cash or to checks. We recommend the breakdown be entered into the cash receipting system exactly as it is received from the Community Center. This will ensure a proper paper trail is documented.

Management Response:

The recommendation to segregate cash and checks upon receipting of funds has been implemented to ensure compliance with the cited new auditing standards.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings related to the major federal award program audit for the year ending December 31, 2004.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2004

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 1/1/04	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue 12/31/04
<u>U.S. Department of Agriculture</u>							
Passed through Iosco County:							
Schools and Roads Grant Funds							
Stump Tax	10.665	\$ 3,181	\$ 0	\$ 0	\$ 3,181	\$ 3,181	\$ 0
<u>U.S. Department of Commerce</u>							
Passed through the Economic Development Administration:							
Economic Development and Adjustment Assistance Program							
Wastewater Treatment Plant Project #06-49-04455	11.307	1,150,000	576,707	576,707	573,293	853,975	296,025
Passed through the National Oceanic and Atmospheric Administration and the Michigan Department of Environmental Quality:							
Michigan Coastal Management Program #03E-7.00	11.419	21,500	20,112	9,940	0	9,940	0
Total U.S. Department of Commerce		1,171,500	596,819	586,647	573,293	863,915	296,025
<u>U.S. Department of Housing and Urban Development</u>							
Passed through the Michigan Jobs Commission:							
Community Development Block Grant/Technical Assistance Grant							
MSC 9800-TA	14.227	50,000	9,891	222	1,631	1,853	0
<u>U.S. Department of Justice</u>							
Bulletproof Vest Partnership Program	16.607	2,022	0	0	2,022	2,022	0
<u>Federal Emergency Management Agency</u>							
Assistance to Firefighters Grant Program							
EMW-2002-FG-20236	85.554	164,332	164,332	58,256	0	58,256	0
Total Federal Awards		\$ 1,391,035	\$ 771,042	\$ 645,125	\$ 580,127	\$ 929,227	\$ 296,025

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2004

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Township's federal awards and does not present transactions that would be included in financial statements of the Township presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

2. Reconciliation to the financial statements:

Federal revenues per the financial statements:	
Governmental Funds	\$ 6,834
Enterprise Funds	<u>573,293</u>
Federal expenditures on the Schedule of Expenditures of Federal Awards	\$ <u><u>580,127</u></u>